# INMET

MINING

ANNUAL REPORT 2002

## OPERATIONS AT-A-GLANCE

**Çayeli**
Interest: 55%
Metal: copper/zinc
Location: Black Sea coast, northeastern Turkey
*(page 11)*

**Pyhäsalmi**
Interest: 100%
Metal: copper/zinc
Location: Central Finland
*(page 12)*

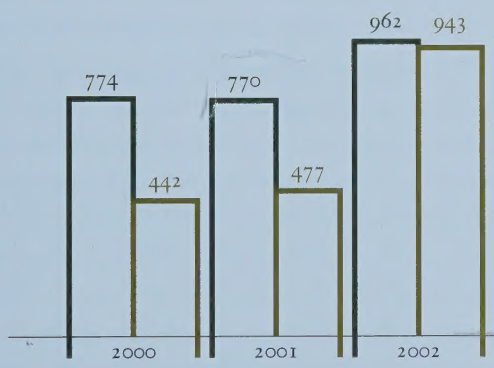
**Troilus**
Interest: 100%
Metal: gold/copper
Location: Northwestern Quebec, Canada
*(page 15)*

**Ok Tedi**
Interest: 18%
Metal: copper/gold
Location: Star Mountains Region,
Papua New Guinea
*(page 16)*

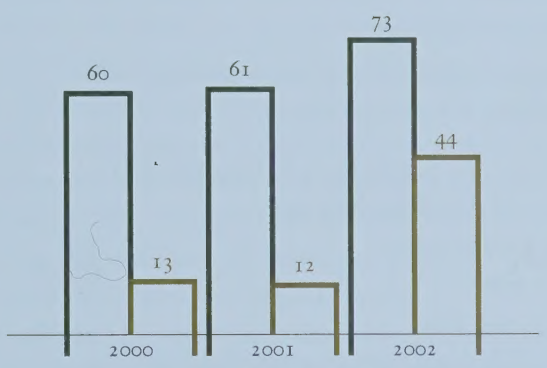
## CORPORATE PROFILE

**INMET IS A CANADIAN BASED INTERNATIONAL MINING COMPANY. INMET'S MINING OPERATIONS AND INVESTMENTS PRODUCE COPPER, ZINC AND GOLD, AND INMET'S GROWTH STRATEGY IS FOCUSED ON FINDING QUALITY BASE METAL RESERVES. INMET'S OPERATING BASE CONSISTS OF FOUR COMPETITIVE MINING OPERATIONS: ÇAYELI, PYHÄSALMI, TROILUS AND OK TEDI. INMET'S COMMON SHARES ARE LISTED ON THE TORONTO STOCK EXCHANGE.**

## HIGHLIGHTS




CONTAINED COPPER AND ZINC
(INMET'S SHARE, THOUSANDS OF TONNES)
COPPER ZINC




COPPER AND ZINC PRODUCTION
(INMET'S SHARE, THOUSANDS OF TONNES)
COPPER ZINC

In 2002, Inmet increased its share of contained copper and zinc in proven and probable reserves by approximately 25% and 100%, respectively. Inmet's share of copper production increased 20% in 2002, while zinc production more than tripled.

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# HIGHLIGHTS

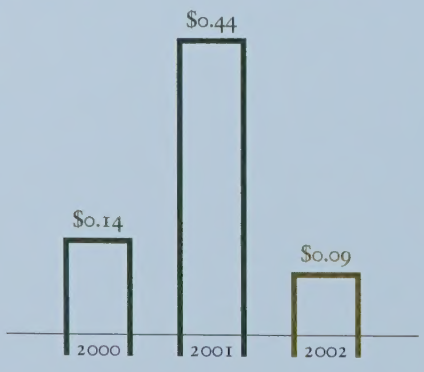
## Operating Highlights

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| PRODUCTION [1] | | | |
| Copper (tonnes) | **73,300** | 60,700 | 59,700 |
| Zinc (tonnes) | **43,900** | 12,400 | 12,700 |
| Gold (ounces) | **257,600** | 244,400 | 218,600 |
| CASH COSTS | | | |
| Copper (U.S.$ per pound) [2] | **$ 0.41** | $ 0.52 | $ 0.49 |
| Gold (U.S.$ per ounce) | **$ 247** | $ 232 | $ 263 |
| TOTAL COSTS | | | |
| Copper (U.S.$ per pound) [2] | **$ 0.54** | $ 0.66 | $ 0.63 |
| Gold (U.S.$ per ounce) | **$ 267** | $ 252 | $ 279 |

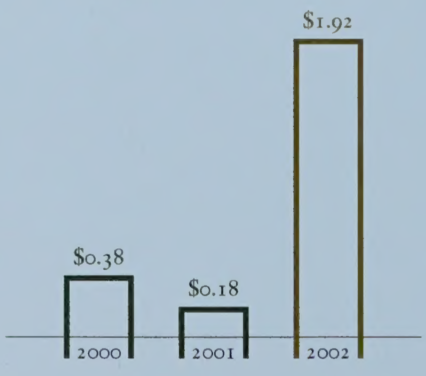
## Financial Highlights

| (in thousands, except per share amounts) | 2002 | 2001 | 2000 |
|---|---|---|---|
| FINANCIAL RESULTS | | | |
| Sales | **$ 211,973** | $ 106,759 | $ 103,940 |
| Net income | **$ 7,376** | $ 18,882 | $ 8,437 |
| Net income per share [3] | **$ 0.09** | $ 0.44 | $ 0.14 |
| Cash flow provided by operating activities | **$ 73,702** | $ 6,388 | $ 14,509 |
| Operating cash flow per share [3] | **$ 1.92** | $ 0.18 | $ 0.38 |
| FINANCIAL POSITION (DECEMBER 31) | | | |
| Cash and short-term investments | **$ 76,532** | $ 63,871 | $ 77,259 |
| Net working capital | **$ 91,064** | $ 96,849 | $ 91,719 |
| Total assets | **$ 475,027** | $ 309,685 | $ 314,426 |
| Long-term debt | **$ 67,711** | $ 16,981 | $ 21,700 |
| Reclamation and other long-term liabilities | **$ 70,171** | $ 46,441 | $ 61,997 |
| Shareholders' equity | **$ 249,673** | $ 212,355 | $ 195,183 |
| Common shares outstanding | **39,283** | 35,276 | 36,402 |

[1] Inmet's share.
[2] Çayeli and Pyhäsalmi zinc production and Ok Tedi gold production included as by-product credits.
[3] Calculated using weighted average shares outstanding for the year.




NET INCOME PER SHARE




OPERATING CASH FLOW PER SHARE

## MESSAGE TO SHAREHOLDERS

Richard Ross, President and Chief Executive Officer

We are very pleased to report on the significant progress Inmet made during 2002 on advancing our strategy "to grow as a base metal mining company providing superior returns to shareholders". In 2002 we significantly increased our metal production through internal growth and acquisitions. Despite depressed metal markets, we maintained our profitability and strong operating cash flow. Finally, and most importantly for our shareholders, Inmet's share price increased substantially during the year reflecting the real value added to Inmet's operating base and already strong financial position.

There were a number of significant developments in 2002 that we believe redefined Inmet and put us in an even stronger position to continue to advance our strategy in the coming years.

Early in 2002, we acquired the Pyhäsalmi copper and zinc mine in Finland from Outokumpu. Pyhäsalmi met our criteria of growing our production base through the acquisition of long life and low cost base metal mining operations. As part of this transaction, Outokumpu became a 10 per cent shareholder of Inmet and Outokumpu's Chief Executive Officer, Dr. Jyrki Juusela, joined the Inmet Board of Directors.

During 2002, Pyhäsalmi outperformed our expectations. Both copper and zinc metal production exceeded budget due mainly to higher grades mined, better than expected metallurgical recoveries and lower than planned operating costs. Pyhäsalmi ranks as one of the lowest cost copper mines in the world with average 2002 cash operating costs, net of other metal credits, of U.S.$0.28 per pound of copper. Including amortization of our purchase price, total unit costs were U.S.$0.47 per pound of copper. For the nine months ended December 31, 2002, Pyhäsalmi generated $12 million in free cash flow. In light of the very depressed metal price environment in 2002, this is an excellent result. We have been able to extend the reserve life of Pyhäsalmi by one year to 2016. Pyhäsalmi also has a significant property position that could provide further opportunities to extend the mine life through successful exploration.

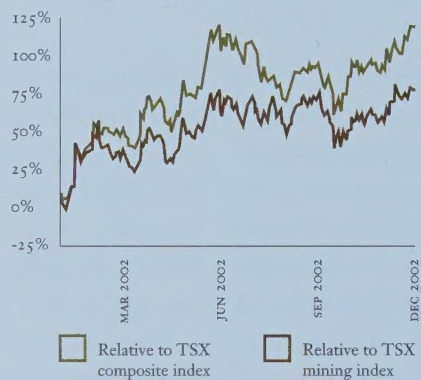
We also purchased an additional six per cent interest in the Çayeli copper and zinc mine in Turkey in March 2002, to bring our total ownership interest to 55 per cent. Increasing our interest in this very profitable mine was a good economic decision, consistent with our strategy to be in a position of control at our operations.

During 2002, Çayeli commenced an upgrade of its mill to increase annual production capacity by 25 per cent to 1.25 million tonnes. On October 25, 2002, Çayeli experienced a series of ground falls underground that caused it to suspend production until December 9, 2002. During this period, Çayeli restored affected areas in the main access ramp. In 2003, Çayeli will continue to implement measures to minimize the possibility of a recurrence of this event. As a result of the production suspension, Çayeli did not meet its production target of 1.0 million tonnes milled in 2002 and completion of the production capacity increase to 1.25 million tonnes will occur later in 2003 than originally planned.

In spite of these difficulties, Çayeli's metal production exceeded 2001 levels with cash costs remaining at a very competitive U.S.$0.43 per pound of copper and U.S.$0.48 per pound of copper for total costs. During 2003 Çayeli plans to gradually increase production toward the 1.25 million tonne per annum target and focus on the development of its deeper reserves. Çayeli is currently evaluating the most economical means of accessing these reserves. Alternatives include extending the existing shaft or increasing trucking capacity. A decision in this regard is expected in 2003. Çayeli remains a long life, low cost operation and Çayeli will continue to carry out exploration in 2003 with the goal of further expanding its reserves.

The Troilus gold mine continued to perform well, in line with our expectations in 2002. Troilus has successfully increased its mill throughput over the past few years and continued this trend in 2002 as indicated by its success in generating free cash flow of $24 million in 2002. The main challenge going forward at Troilus is to address its declining reserve base of four years of remaining mine life. In light of the operational improvements and recent strengthening in gold prices, there may be opportunities at Troilus to add reserves beyond the current four years. This will be assessed during 2003.

INMET SHARE PERFORMANCE




Removing the uncertainty regarding the future of the Ok Tedi copper and gold mine in Papua New Guinea has been an important objective for Inmet during the past few years. We believe the transition made by Ok Tedi to an independently managed operation at the beginning of 2002 has provided the required level of stability for it to generate strong returns for all stakeholders during its remaining mine life. The new shareholders' arrangement ensures that the majority of benefits generated by Ok Tedi will ultimately return to Papua New Guinea while also generating significant value for our 18 per cent shareholding.

The management team which is now in place at Ok Tedi has already demonstrated its ability to generate value. Despite disruptive impacts from the El Niño weather pattern on operations in the latter half of 2002, Ok Tedi's production levels exceeded 2001 levels at lower unit costs. While Ok Tedi built up a significant concentrate inventory balance because of the impact of the El Niño, the excess inventory is expected to be sold in 2003 now that this weather pattern is changing. Therefore, we anticipate that in 2003 Ok Tedi could generate strong dividends.

In January 2002, we received a judgment from the British Columbia Supreme Court against Homestake Canada, Inc. over the failed sale of Troilus in 1997. The judgment awarded Inmet approximately $88 million in damages. Although this award is under appeal, we remain confident that the judgment will be upheld.

In February 2002, we concluded a put/call option agreement with Noranda Inc. regarding our 3.3 per cent net proceeds interest relating to the Antamina mine in Peru. During the term of the agreement, which expires at the end of 2003, Inmet will receive between U.S.$20 million to U.S.$24 million for its net proceeds interest. Early in 2003 we also received a final installment payment of $5.6 million from the 1999 sale of our interest in the Ovaçik mine in Turkey.

Inmet's earnings and cash flow in 2002 reflected the quality of our operations. We generated net income of $7.4 million in 2002 and operating cash flow of $73.7 million. This was achieved despite one of the worst years in decades for metal prices. Both copper and zinc prices were well below sustainable levels and are just starting to show some improvement. Copper and zinc are an important component of worldwide industrial production. We have been at the low end of the metal price cycle for approximately four years now and should see some strengthening in metal prices as worldwide economic activity increases. As metal prices improve, we are in an exceptional position to benefit through our strong leverage to zinc, gold and, in particular copper prices. For each U.S.$0.10 increase in the price of copper, our cash flow

increases by $15 million. Gold prices significantly strengthened in early 2003 in response to investor uncertainty, geopolitical concerns and a decline in the US dollar. If the current gold price trend continues, it could have a very positive impact on earnings and cash flow in 2003. For each U.S.$10 increase in gold prices, our cash flow increases by $1 million.

Early in 2002, we took the decision to expense the cost of stock options. Total stock based compensation costs resulted in a charge to earnings of $4.7 million in 2002 due to the strong performance of our share price. Inmet has 3.5 million shares under options and in the form of deferred share units (DSUs). We believe this is an appropriate, but maximum, level for management and director participation in Inmet's future share price growth. Therefore, we will not issue further options or DSUs for the foreseeable future. Inmet's short term incentive plan will continue to reward our employees for creating real value. We believe this aligns management and shareholder interests.

OUR PRIORITY IS TO GROW OUR PRODUCTION BASE, WITH A PREFERENCE FOR COPPER OR ZINC WITH AN OBJECTIVE OF COMPLETING A MEANINGFUL ACQUISITION WITHIN THE NEXT TWO YEARS.

Inmet has a solid operating base of four competitive cash flow generating operations and a strong balance sheet from which to finance further growth and generate strong earnings and cash flow. We will continue to advance our strategy with the following corporate objectives established in 2003:

- Inmet's share price to outperform the TSX mining index.
- Meet our budgeted production and financial targets.
- Grow through further acquisitions or expansions of existing operations.
- Continue to improve our safety and health performance.

Our priority is to grow our production base, with a preference for copper or zinc with an objective of completing a meaningful acquisition within the next two years. We define meaningful as a transaction that increases our metal production by at least 50,000 tonnes of copper or copper equivalent metal from low cost, long life, quality production. Normalized operating cash flow from such a transaction could be approximately U.S.$50 million.

We believe that we are in a good position to continue to advance our strategy given our financial position and reduced competition for assets that meet our criteria.

We are very proud of our 2002 accomplishments and the transformation of our company in the past year. We are also extremely proud of the quality of our employees and their dedication to Inmet. The future success of Inmet is dependent upon the continued commitment and ingenuity of our employees across the globe. We also recognize that the communities in which we operate are important partners for Inmet and we thank them for their continued support.

We also would like to welcome our most recent board members, Dr. Jyrki Juusela and Oyvind Hushovd and look forward to their support going forward. Allen Born, a director since 1997, has decided not to stand for election to our Board in 2003 and we would like to thank him for his many contributions to Inmet.

We look forward to the future with great enthusiasm and optimism. We believe we have a tremendous opportunity to create further value in Inmet and we will work to see that our shareholders continue to be rewarded with superior returns.

**Richard A. Ross**
President and
Chief Executive Officer

**William James**
Chairman of the Board

## STRATEGY AND OBJECTIVES

Inmet's strategy is to grow as a base metal mining company providing superior returns to shareholders. In 2002, in order to advance its strategy Inmet established the following objectives. The achievements in relation to these objectives are set out below.

### 2002 OBJECTIVES AND ACHIEVEMENTS

1 **Inmet's share price to outperform the TSX mining index.**

✓ Inmet's share price increased more than 75% relative to the TSX mining index.

2 **Achieve smooth ownership transition at both Pyhäsalmi and Ok Tedi.**

✓ Pyhäsalmi's production and costs exceeded expectations.

✓ Ok Tedi has a new management team in place, new independent board members and a new shareholders' arrangement.

3 **Meet 2002 budgeted production and financial targets.**

✓ Production met budget. Unit costs for copper and gold were better than budget by 7% and 3%, respectively.

4 **Increase reserves through acquisition, merger or exploration.**

✓ Completed the acquisitions of 100% of Pyhäsalmi and 6% of Çayeli.

✓ Increased contained copper and zinc in proven and probable reserves by approximately 25% and 100%, respectively.

5 **Improve safety and health performance by reducing lost time accidents by 10%.**

✗ The lost time accident rate increased from 0.9 in 2001 to 1.2 in 2002, per 200,000 man-hours. However, our LTA rate remains well below industry comparables.

6 **No objective established.**

✓ Received, in January 2002, a positive judgment from the British Columbia Supreme Court with regard to the failed sale of Troilus in 1997. The judgment awarded Inmet approximately $88 million in damages.

7 **No objective established.**

✓ Concluded, in February 2002, a put/call option agreement regarding our 3.3% net proceeds interest relating to the Antamina mine. As a result, in 2003 Inmet will receive between U.S.$20 million to U.S.$24 million for its net proceeds interest.

In 2003, in order to further advance our strategy, the following corporate objectives have been established:

### 2003 OBJECTIVES

1 **Inmet's share price to outperform the TSX mining index.**

2 **Meet 2003 budgeted production and financial targets.**

- **Produce 75,000 tonnes of copper, 52,000 tonnes of zinc and 247,000 ounces of gold.**
- **Produce copper at a cash cost of U.S.$0.46 per pound and gold at a cash cost of U.S.$262 per ounce.**

3 **Grow through further acquisitions or expansions of existing operations.**

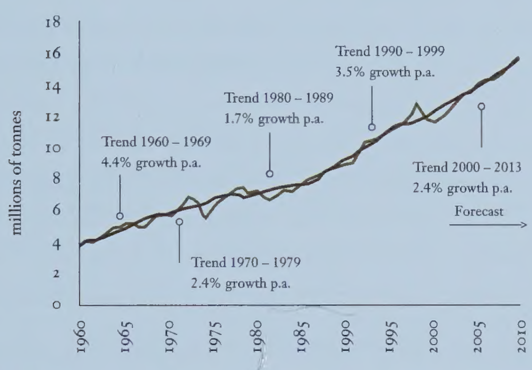
4 **Continue to improve safety and health performance.**

## METAL MARKETS

### Demand for Copper and Zinc

Refined copper and zinc metal have shown continuous growth in consumption over the past four decades, largely in line with growth in industrial production. Western world copper consumption, for example, grew during the 1990's at an average of 3.5 per cent per annum. In 2002, world copper consumption was estimated to be around 15 million tonnes. Based on forecast world growth, an additional 500,000 tonnes of copper each year will be required, or in other words, the equivalent of two to three new large-scale copper mines every year to meet this forecast growth in demand.

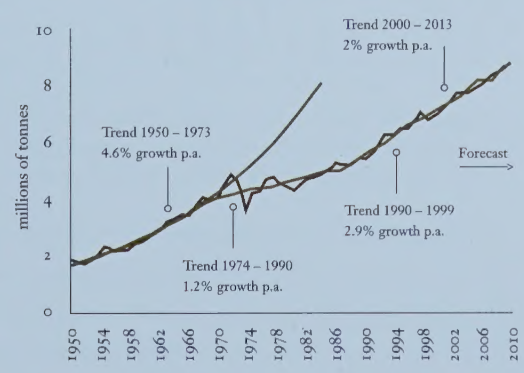
***Western World Copper Consumption Growth***




Source: Brook Hunt

In the case of zinc, western world growth in consumption during the 1990's averaged 2.9 per cent per annum. 2002 world zinc consumption was estimated to be around nine million tonnes. Based on forecast world growth, 200,000 additional tonnes each year will be required, which is the equivalent of a large-scale zinc mine.

***Western World Zinc Consumption Growth***




Source: Brook Hunt

### Substitution

The copper industry remains very resilient as copper is used in a broad range of applications.

Although the plumbing tube market has given up market share to plastics in recent years, copper still holds an 80 per cent market share in the United States and a 60 per cent share of the European market. Over the past five years copper's share of the European market has, in fact, been on the increase. Meanwhile, improved living standards in developing countries have led to higher demand for air conditioners, continuing to boost demand for copper tube.

Copper telecommunication cable has been largely substituted by fibre optic cable in long distance networks. However, due to the high cost of fibre optic cable, copper cable has remained the preferred link between the main network and consumers. In addition, the development of the internet and e-mail has further enhanced the role of copper in telecommunications in recent years. Increases in copper consumption are also occurring in telecommunication wires and cables that link computers with other electronic devices. In the United States, network cables are currently being installed in more than 10 per cent of new homes. Estimates show that by 2020 around 700,000 new homes per annum will be wired for networks while around 800,000 existing homes per annum will require networking wiring. This rate of growth is likely to be copied elsewhere around the globe, thereby providing a growing demand for telecommunication cable.

It is within the automotive sector that developments of new copper applications have been most concentrated in recent years. In brake tubing, copper has regained some of its lost market share through the introduction of a copper-nickel alloy which is more resistant to corrosion from road salt than steel piping. Likewise, new technology has led to the development of a new brazed copper-brass automotive radiator which should recapture market share displaced by aluminum.

An average vehicle today contains sixty pounds of copper which, owing to the increasing number of electrical and electronic components installed per unit, is likely to continue rising in future.

In the case of zinc, galvanizing is the major market application. There are few threats to replacing zinc, however various zinc alloys have been developed with aluminum and nickel to improve heat protection or corrosion resistance compared to zinc-only coatings.

The potential long-term risk to zinc consumption is the substitution of steel components in automobiles with aluminum. This could put some zinc consumption at risk. If this were to happen, the cost of automobiles would increase considerably and the aluminum industry would need to produce an extra 15 million tonnes per annum, a 75 per cent increase over current levels.

### Copper and Zinc Prices

Although metal prices over the past few years have been very depressed, they have moved in line with typical cyclical price trends.

***Quarterly Copper and Zinc Prices***


As the graph illustrates, no two cycles are exactly the same in their duration or the amount of time prices spend in any one phase of the cycle, however each cycle shares most of the same traits. These are:

- *Phase 1:* High metal prices on the back of strong world economic growth, low metal inventories, and aggressive long positions taken by funds. This encourages new mine development and often surplus capacity.
- *Phase 2:* As the economy begins to slow, demand drops. Production is traditionally slower to react to that drop in demand, leading to a build-up in metal inventories with funds moving to build short positions. This combination of slower consumption, rising metal inventories and fund shorts, leads to falling metal prices.
- *Phase 3:* Metal prices then fall to levels that result in financial losses for sufficient marginal cost production leading to temporary suspension of production. Prices may remain at low levels for extended periods, if there are not sufficient cut-backs in production.
- *Phase 4:* Early cyclical buyers, usually funds, try to predict an upturn in the economy and metal prices. Once there is clear evidence of an upturn in economic activity, demand eventually exceeds supply again, leading to a fall in metal inventories, and the funds begin to build long positions again. Metal prices can rise strongly during this phase. The speed of the rise in metal prices depends partly on the timing of mine reactivation and the size of fund long positions.

For the past few years we have been in the third phase, waiting for real and sustained world economic growth to accelerate. It would appear that we are within 12 months of moving into the final phase of the cycle. There may be parallels between the period 1982-1987, where we spent almost five years at the bottom of the price cycle, and the period 1998-2003, where we have also spent five years at the bottom of the price cycle. The price move for both copper and zinc starting in 1988 was strongly positive and there is good potential that later in 2004 history will be repeated.

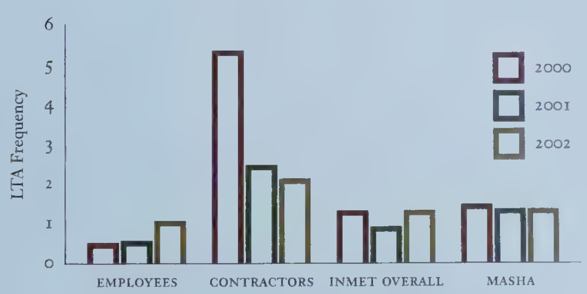
## SAFETY, HEALTH AND ENVIRONMENT

Although we did not meet our objective of reducing our lost time accident ("LTA") rate in 2002, we made good progress in 2002 with our safety, health and environment objectives.

A main goal in this area was the integration of Pyhäsalmi into Inmet's management systems. Based on its safety performance in 2002, we are very pleased with the effort and dedication of the employees of Pyhäsalmi. After an excellent safety record in 2001, the Troilus mine was awarded both the John T. Ryan and F.J. O'Connell trophies in 2002. We are also particularly proud of the fact that no injuries were sustained from a series of ground falls that occurred at Çayeli on October 25. Our employees are an integral part of our safety management systems and their efforts and safety awareness contributed significantly to maintaining a safe working place.

### SAFETY AND HEALTH

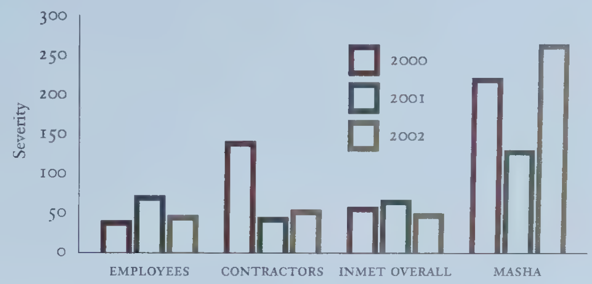
The excellent results achieved in 2001 set a high benchmark in 2002. Inmet experienced 13 LTAs including employees and contractors in 2002, compared to six in 2001. The increase is partly due to the inclusion of Pyhäsalmi in 2002. In spite of this absolute increase, Inmet's overall LTA rate at 1.2 accidents per 200,000 man-hours still outperformed our industry benchmark for the third consecutive year. Although our employee LTA rate increased to 1.0 accidents per 200,000 man-hours in 2002, our contractor rate declined by 11 per cent to 2.1.




The Mines and Aggregates Safety and Health Administration is the safety association serving Ontario's mining and aggregates workplaces. Inmet uses MASHA statistics as its performance benchmark.

The LTA rate for Troilus increased to 1.5 in 2002; at Çayeli, the overall LTA rate decreased 17 per cent to 1.1 accidents per 200,000 hours worked. Management and staff at Pyhäsalmi made excellent progress in improving safety performance by reducing its overall LTA rate by 74 per cent to 1.2 from the corresponding period in 2001 and its efforts will continue forward in this regard for 2003.

Inmet's overall accident severity rate decreased by 25 per cent in 2002 from 2001. Considerable progress was made at each of Çayeli and Pyhäsalmi to reduce work days lost resulting from workplace injuries. The contractor severity rate increased while the employee rate decreased significantly compared to 2001.




Severity is a measure of the seriousness of workplace accidents. Days lost from work due to work-related injuries are transformed into a rate on the basis of 200,000 man-hours.

### ENVIRONMENTAL AFFAIRS, RECLAMATION, AND CLOSED PROPERTIES

Inmet received one Notice of Violation and one warning from regulatory agencies during 2002. The subject matter of each of these have been or are in the process of being addressed.

Two environmental compliance audits were performed during the year; one at Troilus and one at Çayeli. The audits found both operations to have an excellent level of environmental compliance. Action plans are being developed and implemented to address issues that were identified during these audits.

At Çayeli, approval was granted for a new tailings outfall line. This followed extensive modeling to demonstrate that impacts from the decreased depth of discharge would have minimal environmental impact. At Troilus, an updated closure plan was prepared and submitted to the Province of Quebec for review and approval. The Troilus closure cost estimate was reduced from $7.4 million to $4.1 million.

Reclamation activities at Inmet's closed properties progressed according to plan during 2002. At the Copper Range Company site in Michigan, the Remedial Action Plan, incorporating comments from the State of Michigan was submitted for final approval. Copper Range has recently entered into an agreement with the State of Michigan to amend a Consent Decree that governs the closure activities for Copper Range. Under this agreement, Inmet will be released from the requirement to provide financial assurance other than its corporate guarantee to secure performance of the outstanding closure activities of Copper Range. Concurrently, Inmet intends to transfer for nominal value the ownership of the underground mine to a third party intending to use the mine workings for agricultural purposes.

## Çayeli Operating Information (100 per cent)

| | | 2002 | 2001 | Objective 2003 |
|---|---|---|---|---|
| Tonnes of ore milled (thousands) | | **895** | 816 | 950 |
| Tonnes of ore milled per day [1] | | **2,896** | 2,815 | 3,100 |
| Grades (per cent) | Copper | **4.2** | 4.6 | 4.7 |
| | Zinc | **5.1** | 4.5 | 5.6 |
| Mill recoveries (per cent) | Copper | **87** | 88 | 87 |
| | Zinc | **72** | 69 | 68 |
| Metal production (tonnes) | Copper | **32,600** | 33,000 | 39,000 |
| | Zinc | **33,100** | 25,300 | 36,000 |
| Cash cost per pound of copper | | **U.S.$0.43** | U.S.$0.47 | U.S.$0.40 |
| Total cost per pound of copper | | **U.S.$0.48** | U.S.$0.51 | U.S.$0.45 |
| Capital expenditures (thousands) | | **U.S.$8,000** | U.S.$4,700 | U.S.$11,000 |

[1] Calculation based on milling days.

### Longitudinal Section of the Çayeli Ore Body

*Over the last three years Çayeli has added 7 million tonnes to its proven and probable reserves.*

# ÇAYELI

In March 2002, Inmet completed the purchase of an additional six per cent of the Çayeli underground copper and zinc mine in eastern Turkey and raised its ownership to 55 per cent. The Çayeli ore body, with its high grades, currently provides Inmet with a solid production base. Çayeli's known resources and exploration potential could provide for continued operation of the mine well beyond its current life. During 2002, Çayeli prepared for a further increase of its throughput capacity by 25 per cent to 1.25 million tonnes per year. Mill improvements which include the installation of additional crushing and concentrate filtering capacity to accommodate this higher throughput rate are mostly complete. Çayeli also successfully completed the installation and commissioning of a new long-term and higher capacity submarine tailings pipeline. Unfortunately, Çayeli's 2002 operational results were impacted by a ground fall event that occurred on October 25, 2002. The event was caused by the sudden failure of an ore pillar located in the mostly mined out upper south area of the mine. No injuries occurred but production was suspended until December 9, 2002 in order to restore affected areas in the main access ramp. Çayeli has developed a comprehensive plan to rehabilitate the affected areas and implement changes to the operation in order to minimize the potential of future events. Çayeli has already taken steps to move its future infrastructure into the footwall and change its mining sequence to improve the ground conditions around the mine workings. In spite of this event, Çayeli achieved its highest mill throughput, at 895,000 tonnes, since operations commenced in 1994 at an average production cash cost of U.S.$0.43 per pound of copper, net of zinc metal credits. Through diligence and dedication, Çayeli's workforce has established a successful operation that has become an integral part of Inmet's growth strategy and an important contributor to the Turkish economy.

Looking forward into 2003, production rates are expected to ramp-up to the current one million tonne annual capacity by the middle of the year and should further increase in the second half toward the target of 1.25 million tonnes per year. In 2003, Çayeli is expected to mine 950,000 tonnes at 4.7 per cent copper and 5.6 per cent zinc. Zinc grades are expected to be higher than in previous years as the result of zinc-rich stopes included in the 2003 mine plan. In May 2003, the collective bargaining agreement will expire and Çayeli will commence negotiations with its hourly workforce to enter into a new agreement. With aggregate planned metal production of 39,000 tonnes of copper and 36,000 tonnes of zinc at cash costs of U.S.$0.40 per pound of copper, Çayeli is well positioned for another profitable year.

Çayeli is currently evaluating the most economical means of accessing its deeper reserves. Çayeli should complete detailed engineering on the deepening of the existing shaft in 2003. In light of the advances over the years in efficient and cost effective underground ore transportation, Çayeli is also investigating the option of using a fleet of modern haul trucks to transport the ore through the footwall ramp to the bottom of the existing hoisting shaft. A final decision on the best long-term solution for Çayeli will be made in 2003.

The Çayeli operation offers an excellent opportunity for future growth. Çayeli will continue to explore in the vicinity of the existing ore body with an expectation that it will be able to expand existing reserves. While an investment to access the lower parts of the ore body should allow Çayeli to maintain its production rates in future years, the development of the deep ore zone will also provide access for future exploration to the yet to be defined boundaries of the ore body. Over the past years, Çayeli has consistently added to its reserves and resources.

# PYHÄSALMI

Pyhäsalmi is a highly efficient, underground copper and zinc mine located in central Finland within railing distance of its main customers. Since its acquisition from Outokumpu on March 19, 2002, Pyhäsalmi has been successfully integrated into the Inmet organization. Pyhäsalmi's 2002 operating results were excellent and have exceeded Inmet's expectations as a result of higher mill throughput, better than planned mining grades and improved mill recoveries. Furthermore, Pyhäsalmi's newly developed, state-of-the-art ore handling system contributed to lower than expected mining costs. In the last nine months of 2002, Pyhäsalmi processed a total of 0.94 million tonnes, at a copper grade of 1.2 per cent and a zinc grade of 3.0 per cent. As one of the world's most mechanized underground mining operations, Pyhäsalmi is well positioned to maintain its low cost structure and remain profitable even at depressed metal prices. Pyhäsalmi is an exceptional example of the Finnish mining tradition, with its wealth of experienced and high quality personnel who are the foundation of this successful operation. At the time of the Pyhäsalmi acquisition, Inmet and Outokumpu also formed a strategic alliance that provides Inmet access to Outokumpu's technology division and ensures access to Outokumpu's nearby copper and zinc smelters for the life of the mine.

In 2003, Pyhäsalmi is expected to mill 1.27 million tonnes of ore. The underground mine has scheduled 19 stopes for mining during the year, sized between 140,000 tonnes and 20,000 tonnes each. The average stope size during 2003 should be approximately 70,000 tonnes, a key reason for Pyhäsalmi's mining efficiency. The average expected copper grade of 1.1 per cent and zinc grade of 2.8 per cent for 2003 should be in line with the average grades of the deposit. In addition, Pyhäsalmi is scheduled to produce 710,000 tonnes of pyrite during 2003, higher than last year's quantity. Pyrite sales represent approximately 20 per cent of Pyhäsalmi's annual revenue at the current base metal prices.

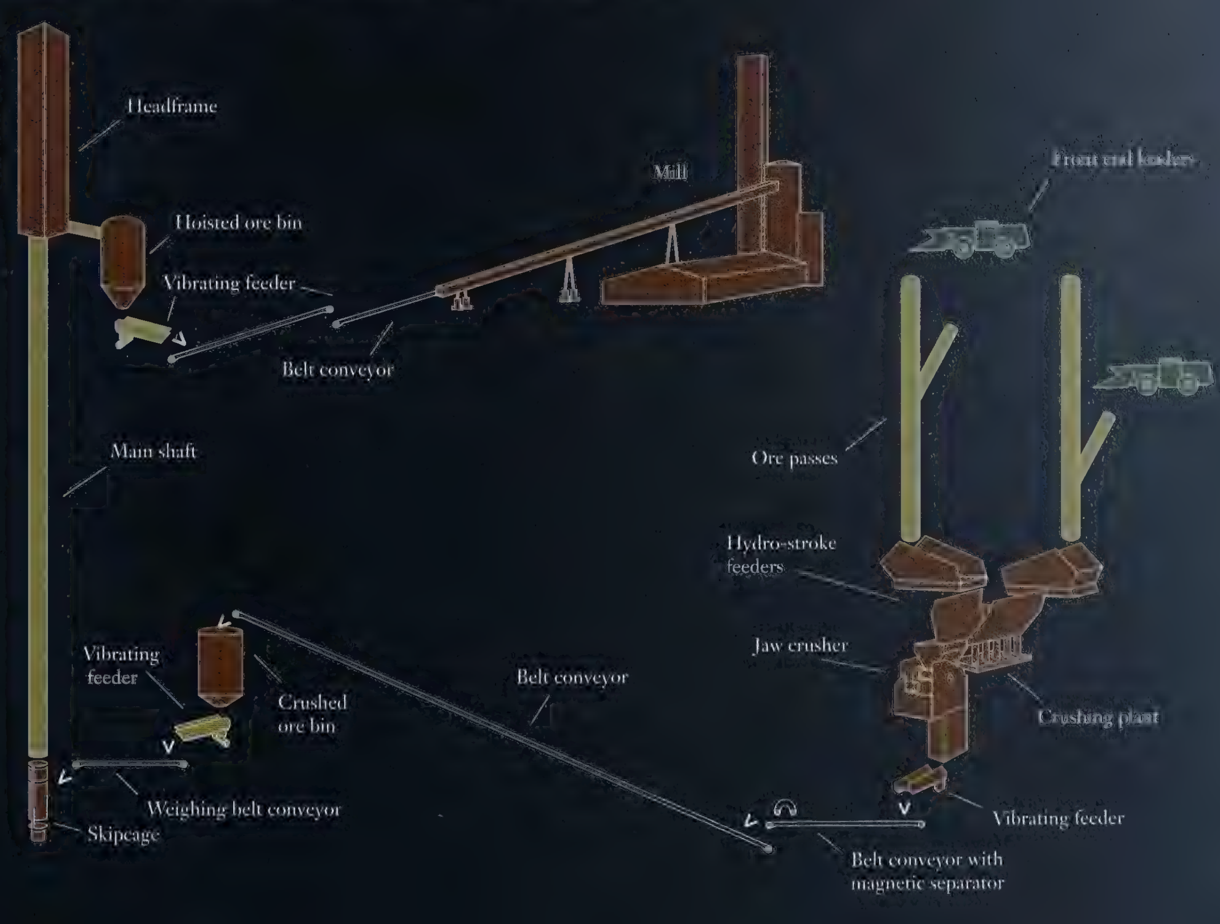
Because the deep ore body is well defined and compact, level development is essentially completed. This will allow Pyhäsalmi to optimize its stope sequence throughout the mine life and maintain an efficient lay-out in light of factors such as ground condition, grade control and haulage distances. Lower than expected operating costs in 2002 of €21.20 per tonne of ore also positively impacted reserves. As of December 31, 2002, Pyhäsalmi's reserves have increased to 17.2 million tonnes (proven – 13.2 million, probable – 4.0 million) at an average grade of 1.2 per cent copper and 2.6 per cent zinc allowing for a current mine life of 13 years. Pyhäsalmi also owns substantial land packages in the vicinity of the operation and elsewhere within Finland. These will be evaluated during 2003 to define a regional exploration strategy.

**Pyhäsalmi Operating Information (100 per cent)**

| | | Nine Months Ended December 31, 2002 | Objective 2003 |
|---|---|---|---|
| Tonnes of ore milled (thousands) | | **939** | 1,270 |
| Tonnes of ore milled per day | | **3,400** | 3,500 |
| Grades (per cent) | Copper | **1.2** | 1.1 |
| | Zinc | **3.0** | 2.8 |
| | Sulphur | **41** | 41 |
| Mill recoveries (per cent) | Copper | **95** | 95 |
| | Zinc | **93** | 92 |
| Metal production (tonnes) | Copper | **11,200** | 12,700 |
| | Zinc | **26,300** | 32,400 |
| | Pyrite | **396,500** | 710,000 |
| Cash cost per pound of copper | | **U.S.$0.28** | U.S.$0.36 |
| Total cost per pound of copper | | **U.S.$0.47** | U.S.$0.57 |
| Capital expenditures (thousands) | | **€5,200** | €2,000 |

**Pyhäsalmi's Ore Handling System**

*Pyhäsalmi's state-of-the-art ore handling system contributes to its low operating costs. The ore handling system starts with a 21 tonne front end loader delivering ore to the ore pass. From this point, the process of transporting ore to the crusher, storage bin, shaft and mill is controlled by one person, who is located in the mill control room on surface.*



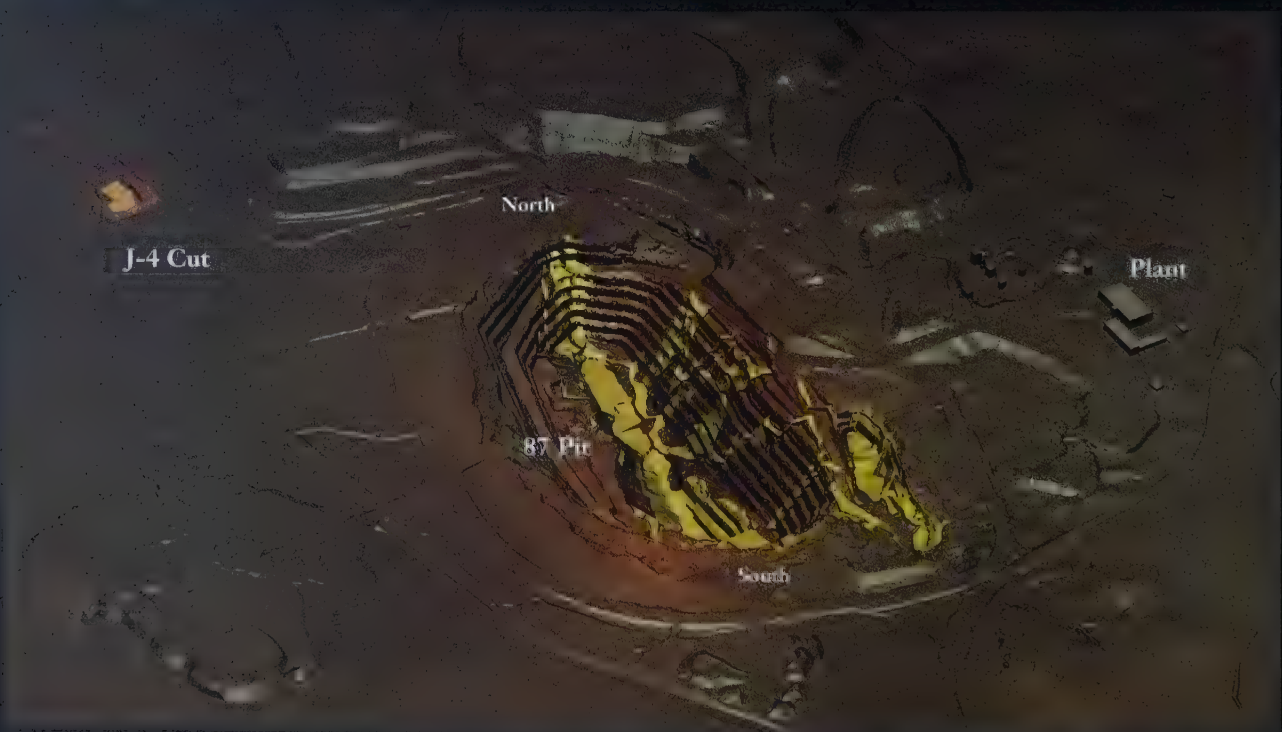
## Troilus Operating Information (100 per cent)

| | | 2002 | 2001 | Objective 2003 |
|---|---|---|---|---|
| Tonnes of ore milled (thousands) | | **5,730** | 5,490 | 5,900 |
| Tonnes of ore milled per day | | **15,700** | 15,000 | 16,100 |
| Strip ratio | | **2.5** | 1.9 | 1.7 |
| Grades | Gold (grams/tonne) | **1.1** | 1.1 | 1.0 |
| | Copper (per cent) | **0.1** | 0.2 | 0.1 |
| Mill recoveries | Gold (per cent) | **83** | 84 | 83 |
| | Copper (per cent) | **90** | 92 | 89 |
| Metal production | Gold (ounces) | **164,900** | 162,600 | 157,000 |
| | Copper (tonnes) | **6,800** | 7,800 | 5,800 |
| Cash cost per ounce of gold | | **U.S.$247** | U.S.$232 | U.S.$262 |
| Total cost per ounce of gold | | **U.S.$267** | U.S.$252 | U.S.$281 |
| Capital expenditures (thousands) [1] | | **$8,300** | $4,300 | $6,300 |

[1] Includes capitalized stripping.

**Computer Generated View of Troilus Mine**

*In 2003, production is expected from the north and west areas of the 87 pit and from the J-4 satellite pit.*



## TROILUS

Over the last several years, Inmet's Troilus open pit gold mine in Quebec has implemented many technical upgrades to steadily improve its production efficiencies and operational results. For Troilus to remain profitable it has had to substantially increase mill throughput without increasing its workforce and equipment fleet. During 2002, Troilus processed over 5.7 million tonnes of ore at a grade of 1.1 grams of gold per tonne, which was the highest mill throughput since the start-up of the operation in 1996. With total production of 164,900 ounces of gold and 6,800 tonnes of copper in 2002, Troilus met its targets set at the beginning of the year. Troilus' cash cost for gold in 2002 of U.S.$247 per ounce was slightly better than originally predicted as the result of higher gold and copper production. Troilus finished the year generating free cash flow of $24 million and operating earnings of $12 million exceeding Inmet's expectations, as a result of the improved gold price. Inmet is proud of its Troilus employees who have risen to the challenge of mining this low-grade deposit.

In 2003, Troilus is expected to process 5.9 million tonnes of ore at a strip ratio of 1.7 to 1. Gold grades for 2003 are expected to average around 1.0 grams per tonne, 10 per cent lower than in 2002 as a result of the areas to be mined during the year. Mine production is scheduled in three principal areas, the 87 north push-back, the 87 west area and the J-4 satellite pit. The north push-back and west area are located in the main pit and grades there average 0.9 grams of gold per tonne. Mining in these areas should be completed by September 2003, at which time mining is scheduled to return to the bottom of the main pit.

The J-4 deposit is a smaller zone located approximately 500 metres from the main deposit. In December 2002, Troilus conducted a large-scale test by mining approximately 100,000 tonnes from the J-4 zone. Despite the low copper grade of 0.04 per cent, Troilus was able to produce a high quality copper concentrate with up to 10 ounces of gold. Metallurgical recoveries exceeded 80 per cent. Gold grades and ore tonnage were also greater than predicted by the geologic block model. In the first quarter of 2003, Troilus will process an additional 500,000 tonnes from J-4, and expects to confirm these encouraging results. As part of the development of J-4, the Canadian federal and Quebec provincial governments have agreed to restructure a $4.7 million loan, which Troilus received during the construction phase of the mine access road and power line. Under the restructured loan, Troilus will pay the governments 33 per cent of the cash flow from J-4, net of capital costs for J-4, up to the original loan amount of $4.7 million.

Troilus' slightly higher cash costs forecasted in 2003 are directly related to lower grades in the 2003 mining areas. In 2004, Troilus is currently scheduled to mine the higher grades from the bottom of the main pit with little waste removal.

Based on Troilus' success of profitably mining lower grades and with a currently favourable metal price environment for gold, Troilus is in the process of evaluating opportunities to extend its mine life beyond 2006. Troilus is also in the process of conducting a $1 million exploration program to investigate the continuation of the ore zone below the bottom of the main pit. The program is 50 per cent funded by the Quebec provincial government and should be completed by the end of 2003.

## OK TEDI

Significant progress was made in 2002 to eliminate the past uncertainty regarding the future operation of the Ok Tedi mine. The new shareholder and other arrangements in effect after BHP Billiton Limited's exit will provide substantial benefits to the people of Papua New Guinea during the mine's operation and after closure. Community Mine Continuation Agreements were entered into with the communities impacted by the mine's operation and were ratified by the Parliament of Papua New Guinea. Under these agreements, the communities consented to the continued operation of Ok Tedi in return for scheduled compensation and development funds. Ok Tedi also adopted a new environmental regime that defines the regulatory framework for Ok Tedi's environmental obligations and performance. These agreements and the new regime provide stability for the future operation of the Ok Tedi mine and maximum benefit for all stakeholders.

During the fall of 2002, low water levels in the Ok Tedi and Fly Rivers caused by El Niño weather conditions impacted Ok Tedi's ability to ship concentrates to its customers. During this period, Ok Tedi continued operating while stockpiling concentrates at the Kiunga wharf and at the mine site. Due to limited stockpiling capacity, Ok Tedi eventually curtailed its production output by 50 per cent for a period of three weeks in late 2002. In January 2003, heavy rainfalls returned and resulted in a more consistent shipping schedule. In spite of the challenges imposed by the El Niño conditions, Ok Tedi produced 211,000 tonnes of copper and 515,000 ounces of gold in 2002 at a cash cost of U.S.$0.44 per pound of copper, net of gold credits.

In 2003, Ok Tedi is expected to produce 193,000 tonnes of copper and 500,000 ounces of gold at cash costs above 2002 costs but in line with 2001 costs. Mill throughput capacity during the first eight weeks of 2003 was temporarily reduced to 50 per cent due to scheduled replacement of one of the two SAG mills. The new SAG mill is scheduled to be operational in March. This also provided Ok Tedi the opportunity to implement a series of mill upgrades in the flotation area to improve metal recoveries for copper and gold.

In order to mitigate the impact of waste rock and tailings discharged into the Ok Tedi River, Ok Tedi operates a dredge downstream from the mine that annually removes approximately 20 million tonnes of sediment from the river. The dredge operation, originally launched as a trial in 1999, is now a permanent activity of Ok Tedi's environmental management program. Ok Tedi also sets aside cash reserves on an annual basis to fund future reclamation costs at the end of the mine life. All of these costs are included in Ok Tedi's unit costs.

With new organizational structures in place and technical upgrades to be completed during the first quarter of 2003, Ok Tedi is well positioned to benefit from a strong production year. We expect that Ok Tedi's operating results will provide Inmet with significant dividend payments in 2003.

**Ok Tedi Operating Information (100 per cent)**

| | | **2002** | 2001 | Objective 2003 |
|---|---|---|---|---|
| Tonnes of ore milled (thousands) | | **30,400** | 30,500 | 29,000 |
| Tonnes of ore milled per day | | **83,000** | 84,000 | 79,000 |
| Strip ratio | | **2.0** | 1.9 | 2.0 |
| Grades | Copper (per cent) | **0.8** | 0.9 | 0.8 |
| | Gold (grams/tonne) | **0.8** | 0.8 | 0.8 |
| Mill recoveries | Copper (per cent) | **87** | 74 | 82 |
| | Gold (per cent) | **67** | 59 | 67 |
| Metal production | Copper (tonnes) | **211,300** | 203,800 | 193,000 |
| | Gold (ounces) | **514,900** | 454,700 | 500,000 |
| Cash cost per pound of copper | | **U.S.$0.44** | U.S.$0.54 | U.S.$0.53 |
| Total cost per pound of copper | | **U.S.$0.59** | U.S.$0.72 | U.S.$0.72 |
| Capital expenditures (thousands) | | **U.S.$11,200** | U.S.$23,500 | U.S.$22,000 |

# MINERAL RESERVES AND RESOURCES

## Operating Properties

As at December 31, 2002

| | Category | Tonnes (x 1000) | Cu % | Zn % | Au g/t | Ag g/t | S % | Contained Metal (x 1000) Cu tonnes | Zn tonnes | Au ounces | Ag ounces | Inmet's Interest % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MINERAL RESERVES | | | | | | | | | | | | |
| Ok Tedi | Proven | 240,500 | 0.9 | – | 0.9 | – | – | 2,169 | – | 7,322 | – | 18 |
| | Probable | 33,200 | 0.6 | – | 0.7 | – | – | 190 | – | 716 | – | 18 |
| | Total | 273,700 | 0.9 | – | 0.9 | – | – | 2,359 | – | 8,038 | – | 18 |
| Çayeli | Proven | 7,350 | 4.0 | 5.8 | 0.6 | 44 | – | 292 | 427 | 130 | 10,397 | 55 |
| | Probable | 8,600 | 3.2 | 5.5 | 0.5 | 49 | – | 279 | 476 | 130 | 13,548 | 55 |
| | Total | 15,950 | 3.6 | 5.7 | 0.5 | 47 | – | 571 | 903 | 260 | 23,945 | 55 |
| Pyhäsalmi | Proven | 13,200 | 1.2 | 2.5 | – | – | 42 | 157 | 330 | – | – | 100 |
| | Probable | 4,000 | 1.2 | 2.9 | – | – | 42 | 46 | 116 | – | – | 100 |
| | Total | 17,200 | 1.2 | 2.6 | – | – | 42 | 203 | 446 | – | – | 100 |
| Troilus | Proven | 8,200 | 0.1 | – | 0.8 | 1.1 | – | 7 | – | 203 | 290 | 100 |
| | Probable | 14,400 | 0.1 | – | 1.0 | 1.1 | – | 13 | – | 466 | 509 | 100 |
| | Total | 22,600 | 0.1 | – | 0.9 | 1.1 | – | 20 | – | 669 | 799 | 100 |
| | | | | | | | Total | 3,153 | 1,349 | 8,967 | 24,744 | |
| | | | | | | | Inmet's share | 962 | 943 | 2,259 | 13,969 | |
| MINERAL RESOURCES | | | | | | | | | | | | |
| Çayeli | Inferred | 3,300 | 5.8 | 8.7 | – | – | – | 190 | 286 | – | – | 55 |
| Pyhäsalmi | Measured | 9,500 | 0.7 | 0.6 | – | – | 44 | 67 | 57 | – | – | 100 |
| | Indicated | 2,500 | 0.9 | 1.2 | – | – | 42 | 22 | 29 | – | – | 100 |
| | Total | 12,000 | 0.7 | 0.7 | – | – | 44 | 89 | 86 | – | – | 100 |
| | | | | | | | Total | 279 | 372 | – | – | |
| | | | | | | | Inmet's share | 193 | 243 | – | – | |

## Undeveloped Properties

As at December 31, 2002

| | Category | Tonnes (x 1000) | Cu % | Zn % | Au g/t | Ag g/t | | Contained Metal (x 1000) Cu tonnes | Zn tonnes | Au ounces | Ag ounces | Inmet's Interest % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MINERAL RESOURCES | | | | | | | | | | | | |
| Petaquilla | Indicated | 1,096,500 | 0.5 | – | 0.1 | – | | 5,263 | – | 3,173 | – | 48 |
| Izok | Indicated | 16,500 | 2.2 | 11.4 | – | 60 | | 363 | 1,881 | – | 31,829 | 100 |
| | | | | | | | Total | 5,626 | 1,881 | 3,173 | 31,829 | |
| | | | | | | | Inmet's share | 2,889 | 1,881 | 1,523 | 31,829 | |

- There are no known environmental, permitting, legal, taxation, political or other relevant issues that would materially affect the estimates of mineral reserves.
- Mineral reserves, mineral resources and contained metal are shown on a 100 per cent basis for each property, other than the lines titled "Inmet's share".
- Contained metal estimates do not take into account mill recovery factors.
- Çayeli and Pyhäsalmi mineral resources are insitu, undiluted and in addition to reserves.
- Mineral resources do not have demonstrated economic viability.

## NOTES TO MINERAL RESERVES AND RESOURCES

Mineral reserves and resources have been estimated at December 31, 2002 in accordance with definitions adopted by the Canadian Institute of Mining, Metallurgy and Petroleum on August 20, 2000 (the "CIM Definitions").

Reserves and resources for Çayeli were prepared under the supervision of Robert Sim, P. Geol. (Chief Geologist, Çayeli), who is a qualified person for the purposes of National Instrument 43-101. Çayeli's reserves and resources are estimated based on a 2.5 per cent copper equivalent cut-off grade which corresponds to a copper price of U.S.$0.90 per pound.

Reserves and resources for Pyhäsalmi were prepared under the joint supervision of Frank Balint, P. Geol. (Vice-President, Corporate Development, Inmet) and Joseph Boaro, P. Eng. (Senior Project Engineer, Pyhäsalmi), who are qualified persons for the purposes of National Instrument 43-101. Pyhäsalmi's reserves have been calculated using a copper price of U.S.$0.90 per pound and an exchange rate of €1.00 = U.S.$1.00 and a net smelter return cut-off of €22.50 per tonne.

Reserves and resources for Troilus were prepared by Eric Lamontagne, P. Eng. (Chief Engineer, Troilus), who is a qualified person for the purposes of National Instrument 43-101. Troilus' reserves have been calculated using a gold price of U.S.$290 per ounce and are based on a cut-off grade of 0.45 grams of gold per tonne.

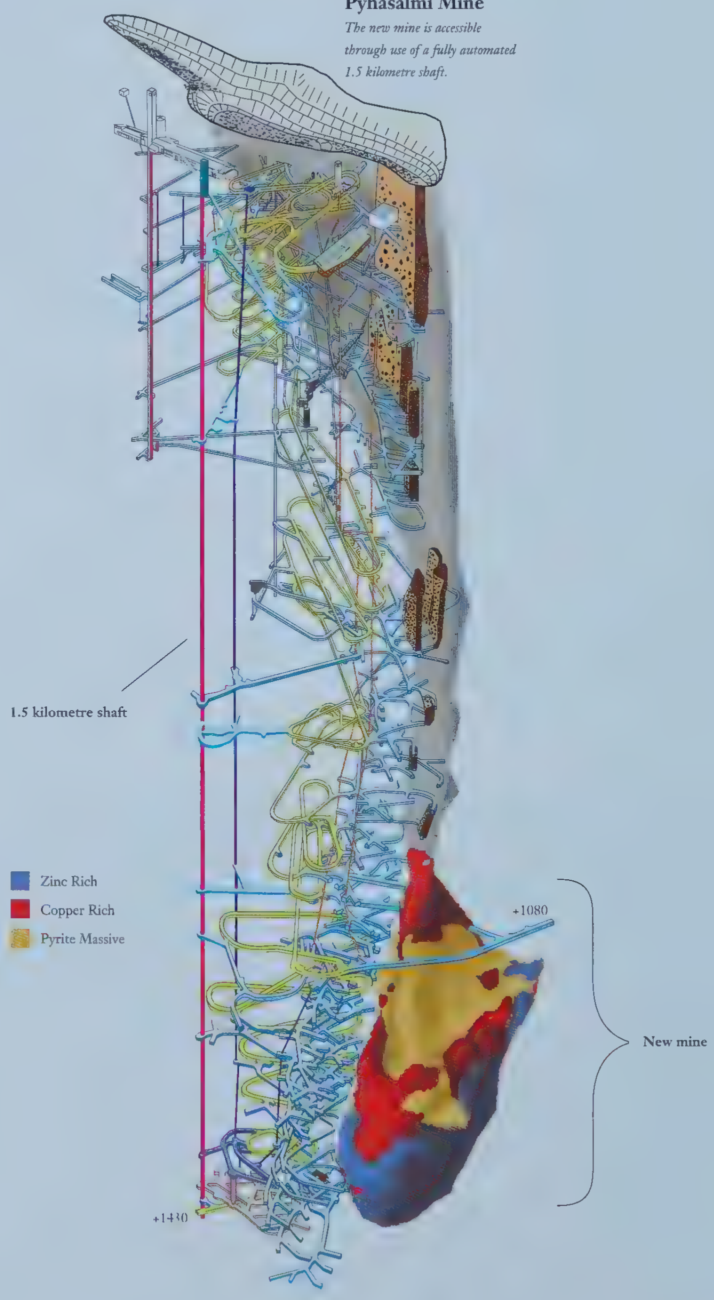
Reserves for Ok Tedi were prepared by Ok Tedi Mining Limited ("OTML") and provided to Inmet. OTML has advised that these reserves as at December 31, 2002 have been determined by adjusting for production between June 30, 2002 and December 31, 2002 reserves calculated and certified as at June 30, 2002 in accordance with the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, published by the joint ore reserves committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Australian Mining Industry Council (the "Australasian Code"). The competent persons, as defined in the Australasian Code, responsible for the estimate included Stuart L. Green (Technical Services Manager, OTML). Inmet has not independently verified these reserves. Frank Balint, P. Geol. (Vice-President, Corporate Development, Inmet), a qualified person for the purposes of National Instrument 43-101, has reviewed the relevant definitions of proven and probable reserves under the Australasian Code, in relation to the estimation of proven and probable reserves by OTML, and has concluded that the confidence levels used to categorize those reserves under the Australasian Code are consistent with those required under the CIM Definitions. The Ok Tedi reserves have been calculated using a copper price of U.S.$0.90 per pound and a gold price of U.S.$300 per ounce.

Resources for Petaquilla include an assessment for mining dilution and recovery and are based on an open pit mine plan with an overall strip ratio of 1.1 to 1. The resources, which were estimated by H. A. Simons, an independent mine engineering firm, in 1998, have been calculated using a net smelter return cut-off of U.S.$3.10 per tonne of ore at a copper price of U.S.$1.10 per pound. This estimate, made before the adoption of National Instrument 43-101, continues to be relevant and reliable and uses categories that are consistent with the CIM Definitions.

Resources for Izok include appropriate mining dilution and recovery factors. The resource estimate calculation contemplates that 90 per cent of the resource could be mined from an open pit with an overall strip ratio of 3.2 to 1 and the remaining resource could be mined from underground. The resources, which were estimated by Strathcona Mineral Services Limited in March 1994, have been calculated using a net smelter return cut-off of U.S.$30 per tonne of ore at a zinc price of U.S.$0.59 per pound and a copper price of U.S.$0.90 per pound. This estimate, made before the adoption of National Instrument 43-101, continues to be relevant and reliable and uses categories that are consistent with the CIM Definitions.

**Pyhäsalmi Mine**

*The new mine is accessible through use of a fully automated 1.5 kilometre shaft.*



# DIRECTORS AND OFFICERS

## DIRECTORS

**William James**
*Toronto, Ontario*
Member of Corporate Governance
and Nominating Committee,
Compensation Committee and
Safety, Health and Environment Committee
Chairman of the Board,
Inmet Mining Corporation
*Director since 1996*

**Richard A. Ross**
*Nobleton, Ontario*
President and Chief Executive Officer,
Inmet Mining Corporation
*Director since 1999*

**Allen Born**
*Denver, Colorado*
Chairman of Born Investments, LLC
*Director since 1997*

**Paul E. Gagné**
*Senneville, Quebec*
Member of Audit Committee and
Safety, Health and Environment Committee
Corporate Director
*Director since 1996*

**Oyvind Hushovd**
*Oakville, Ontario*
Member of Audit Committee
and Safety, Health and Environment Committee
Corporate Director, Former Chief Executive Officer,
Falconbridge Limited
*Director since 2002*

**Jyrki Juusela**
*Helsinki, Finland*
Member of Corporate Governance
and Nominating Committee
President and Chief Executive Officer,
Outokumpu Oyj
*Director since 2002*

**Thomas E. Kierans**
*Toronto, Ontario*
Member of Corporate Governance
and Nominating Committee and
Compensation Committee
Chair of the Canadian Institute
for Advanced Research (CIAR)
*Director since 1996*

**Alfred Powis**
*Toronto, Ontario*
Corporate Director
Former Chairman, Noranda Inc.
*Director since 1997*

**James M. Tory**
*Toronto, Ontario*
Member of Audit Committee
and Compensation Committee
Counsel, Torys LLP (Barristers and Solicitors)
*Director since 1987*

## OFFICERS

**Richard A. Ross**
President and Chief Executive Officer

**Jochen E. Tilk**
Executive Vice-President

**Steve Astritis**
Vice-President, General Counsel

**Frank Balint**
Vice-President, Corporate Development

**Oliver R. E. Merton**
Vice-President, Commercial

**Jo-Anne Oswald**
Vice-President, Finance and Chief Financial Officer

**Wendy Kaufman**
Controller

# CORPORATE INFORMATION

## CORPORATE OFFICE

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330 Bay Street
Suite 1000
Toronto, Ontario, Canada
M5H 2S8
Telephone: + 1-416-361-6400

## EXPLORATION OFFICES

**North America**
Direct inquiries to corporate office

**South America**
P.O. Box 18-0465
Lima 18, Peru
Telephone: + 511-372-0433
Fax: + 511-372-0443

## INVESTOR RELATIONS

Financial information such as annual reports, interim reports and other information is available on Inmet's web site: www.inmetmining.com.

Copies of the annual reports, interim reports and other corporate publications are also available from our Investor Relations department:

- By mail directed to our Corporate Office
- By email at investor@inmetmining.com
- By fax at + 1-416-368-4692
- By telephone at + 1-416-860-3968

## VERSION FRANÇAISE

Pour obtenir la version française de ce rapport, veuillez communiqer avec le bureau administratif de la compagnie, département des services aux actionnaires.

## AUDITORS

KPMG LLP
Chartered Accountants
Toronto, Ontario, Canada

## SHAREHOLDER INQUIRIES

Inquiries with respect to changes of address, registration and lost share certificates should be directed to the Stock Transfer Department of CIBC Mellon Trust Company in Toronto, Montreal, Winnipeg, Calgary or Vancouver. Alternatively, our Transfer Agent may be reached at:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada
M5C 2W9

Answer Line™: + 1-416-643-5500
or toll free in North America at 1-800-387-0825
Fax: + 1-416-643-5501
Email: inquiries@cibcmellon.ca
Web site: www.cibcmellon.ca

## STOCK SYMBOL

IMN

## STOCK EXCHANGE LISTING

Toronto Stock Exchange

**Common Shares**

| (thousands) | 2002 | 2001 |
|---|---|---|
| Average for the year ended December 31 | **38,447** | 35,326 |
| As at December 31 | **39,283** | 35,276 |

## ANNUAL AND SPECIAL MEETING

Inmet's Annual and Special Meeting will be held on
Wednesday, April 30, 2003, at 10:30 a.m.
at the TSX Conference Centre
The Exchange Tower, 130 King Street West
Toronto, Ontario, Canada

WWW.INMETMINING.COM

# INMET

MINING

FINANCIAL REPORT 2002

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Corporation's management is responsible for the presentation and preparation of the annual consolidated financial statements, management's discussion and analysis ("MD&A") and other information in the Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") while the MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators.

The consolidated financial statements and MD&A necessarily include amounts based on management's informed judgement and estimate of the expected effects of current events and transactions. In addition, in preparing financial information, management interprets the requirements described above, makes determinations as to the relevancy of information to be included, and makes estimates and assumptions that affect reported information. The significant accounting policies of the Corporation are summarized on pages 20 to 22. The MD&A also includes information regarding the estimated impact of transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information since future events and circumstances may not occur as expected.

Financial information presented in the Corporation's Annual Report is consistent with that in the consolidated financial statements. In meeting its responsibility for reliability of financial information, management maintains and relies on a system of internal controls. Management also periodically audits or causes to be audited the internal controls. These controls and audits are designed to provide management with reasonable assurance that: the Corporation's financial records are reliable in preparing financial statements and other financial information, the Corporation's assets are safeguarded against unauthorized use or disposition, the Corporation's liabilities are appropriately recognized and the Corporation is in compliance with all applicable legal and regulatory requirements.

The Board of Directors is responsible for reviewing and approving the Corporation's consolidated financial statements and the MD&A, and overseeing management's responsibilities for the presentation and preparation of financial information and maintenance of appropriate internal controls. The Board has delegated these responsibilities to the Audit Committee, comprised of unrelated directors.

The Corporation's external, independent auditors, KPMG LLP, have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters. They have been appointed by shareholders to conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to express an opinion as to whether the consolidated financial statements present fairly the Corporation's consolidated financial position and operating results in accordance with Canadian GAAP. KPMG's report is on page 22.

**Richard A. Ross**
President and
Chief Executive Officer

**Jo-Anne Oswald**
Vice-President, Finance and
Chief Financial Officer

February 5, 2003

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**The following is a discussion and analysis of the consolidated financial condition and results of operations of Inmet. The discussion and analysis should be read in conjunction with the financial information included in the consolidated financial statements. In this document, Inmet Mining Corporation may be referred to as the "Company", and the Company, together with its subsidiaries, associates and joint ventures may be referred to as "Inmet".**

## CORE BUSINESS AND STRATEGY

### The Company

Inmet Mining Corporation is a Canadian based international mining company. The Company and its subsidiaries operate three mines (Çayeli, Pyhäsalmi and Troilus) and have an investment in one other (Ok Tedi). These mines produce primarily copper, zinc and gold.

The following chart highlights Inmet's ownership structure by principal metal and by entity, and the accounting method used to incorporate the financial results of each entity in the Company's consolidated financial statements:

Inmet Mining Corporation

| Principal Metal | Copper | Copper | Gold | Zinc |
|---|---|---|---|---|
| By-product | zinc | gold | copper | copper |
| Operating | 55% Çayeli [1] (Turkey) | 18% Ok Tedi (Papua New Guinea) | 100% Troilus (Canada) | |
| | 100% Pyhäsalmi (Finland) | | | |
| Development | | | | 100% Izok (Canada) |

Consolidated

Cost accounted

[1] Consolidated from April 1, 2002. Prior to that time Çayeli was proportionately consolidated.

### Core Business

Inmet's core business is operating low cost, long life base metal mines. Inmet's principal products are copper and zinc concentrates, with some gold, silver and pyrite production. Inmet's mines produce metal concentrates which are sold to smelters and refineries, who further process the concentrates into refined metal. As a producer of commodities, Inmet has no direct control over the prices that it receives for its principal products, as metal prices are set by market demand and supply forces.

### Corporate Strategy

The Company's strategy, as established three years ago, is "to grow as a base metal mining company providing superior returns to shareholders". The Company has successfully executed this strategy, generating superior returns to shareholders over the past three years. The Company's share price has exceeded the Toronto Stock Exchange ("TSX") mining index by more than 120 per cent over the same three years, and by more than 75 per cent over the past year.

In addition, in the past year Inmet's total copper and zinc metal production grew by 60 per cent and Inmet's weighted average cash costs of copper remained competitive at U.S.$0.41 per pound during 2002.

Inmet has also enhanced the value of its existing assets and also realized on the value of non-core assets:

- At Çayeli, additional reserves of seven million tonnes have been defined over the past three years in the deep part of the ore body. In addition, as a result of mill expansions, annual throughput capacity has increased 18 per cent from three years ago with plans for a further 25 per cent increase from the current annual one million tonne capacity over the next two years.
- At Troilus, mill expansions have increased throughput in every year since the inception of production in 1997. This has maintained costs at levels low enough to ensure the operation remained profitable, particularly in light of the past several years of low metal prices. In addition, gold hedging programs in place since 2000 have contributed to the positive cash flows over these past three years.
- At Ok Tedi, after several years of uncertainty, new arrangements commenced in February 2002 for the continued operation of the mine for the remainder of its life. The focus at Ok Tedi is now on maximizing cash flows so that all stakeholders can benefit from Ok Tedi's continued operation.
- In January 2002, the Company crystallized the value of its 3.3 per cent net proceeds interest ("NPI") in the Antamina mine through a put/call arrangement with Noranda Inc. This agreement provides that Inmet may sell its NPI in the first half of 2003 for U.S.$20 million or the last half of 2003 for U.S.$22.5 million. During the year, Noranda can also require the Company to sell the NPI for U.S.$24 million. The agreement expires at the end of 2003.

- Since 1998, the Company has been in litigation with Homestake Canada, Inc. ("Homestake") in connection with the failure by Homestake to complete the purchase of Troilus in 1997. In January 2002, the British Columbia Supreme Court awarded the Company damages in lieu of specific performance in the amount of $88.2 million. The award is currently under appeal. In February 2002, Homestake gave notice of its appeal to have the judgment set aside. The appeal is set to be heard in June 2003. Pending resolution of this matter, Inmet has the benefit of a letter of credit in the amount of approximately $95 million if the appeal is ultimately determined in its favour.

In 2002, the Company made further progress in executing its strategy through two major purchases:

- Pyhäsalmi was acquired on March 19, 2002. Pyhäsalmi is expected to add at least 14,000 tonnes of copper metal and over 30,000 tonnes of zinc metal annually to Inmet's base metal production during the next 13 years.
- An additional six per cent of Çayeli was purchased in March 2002, bringing the Company's total interest up to a 55 per cent controlling interest.

The Company believes it can continue to provide superior returns to its shareholders through the achievement of its corporate objectives. The corporate objectives for 2003 are set out below:

1. The Company's share price to outperform the TSX mining index.
2. Meet budgeted production and financial targets.
3. Grow through expansions or acquisitions.
4. Continue to improve safety and health performance.

## CAPABILITY TO DELIVER RESULTS

The following section discusses the resources, both financial and non-financial, that the Company has to execute its strategy.

### Financial Resources

In order for the Company to achieve its growth strategy it must be able to finance such growth, while at the same time fund its requirements for sustaining capital and corporate expenditures. The Company's ability to generate strong cash flows from its operations and its investments and its strong balance sheet are key factors in achieving its growth objectives as outlined below.

***Liquidity***

In 2002, the Company's cash and short-term investments balance of $77 million increased by $13 million from 2001, as described in the following table:

*Consolidated Sources and Uses of Cash*

| (millions of Canadian dollars) | 2002 | 2001 |
|---|---|---|
| Cash and short-term investments, beginning of year | **$ 64** | $ 77 |
| Cash provided by (used in) operating activities: | | |
| Çayeli | **30** | – |
| Pyhäsalmi | **20** | – |
| Troilus | **32** | 8 |
| Ok Tedi | **6** | 8 |
| | **88** | 16 |
| Corporate development and exploration | **(5)** | (5) |
| General and administration | **(5)** | (5) |
| Investment income and other | **(1)** | 3 |
| Reclamation costs, net of asset sales | **(3)** | (3) |
| | **74** | 6 |
| Cash used in investing activities: | | |
| Acquisition of Pyhäsalmi | **(65)** | (1) |
| Acquisition of 6% of Çayeli (net of cash acquired) | **(3)** | – |
| Capital assets and other investing | **(28)** | (11) |
| | **(96)** | (12) |
| Cash provided by (used in) financing activities: | | |
| Corporate credit facility | **47** | – |
| Repayment of debt | **(10)** | (5) |
| Other financing | **(3)** | (3) |
| | **34** | (8) |
| Foreign exchange on cash balances | **1** | 1 |
| Cash and short-term investments, end of year | **$ 77** | $ 64 |

The increase in operating cash flows in 2002 was largely due to the newly acquired Pyhäsalmi mine, productivity enhancements at Inmet's other operations, the full consolidation of Çayeli and positive working capital movements, particularly at the Troilus mine.

*Sources and Uses of Cash – Çayeli*

Çayeli's sources and uses of cash are illustrated in the following chart:

*Çayeli Sources and Uses of Cash* [(1)]

| (millions of Canadian dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Operating cash flows | **$** | **36** | $ | (1) |
| Capital expenditures | | **(13)** | | (7) |
| Debt repayments | | **(7)** | | (7) |
| Free cash flow | **$** | **16** | $ | (15) |

(1) Information is presented on a 100 per cent basis to illustrate the performance of the operation. Inmet owned 49 per cent of Çayeli to March 31, 2002 and 55 per cent thereafter.

Çayeli generated $16 million in free cash flow in 2002. In 2001, Çayeli did not generate positive operating cash flow as a result of a strike. As a result, in 2001 Çayeli used its existing cash reserves to fund its capital requirements and debt obligations. Capital expenditures in 2002 related to replacement of the tailings pipeline and improvements in the mill. In 2003, Çayeli's capital requirements are expected to be approximately $17 million and include costs related to mine development, further mill upgrades and the replacement of certain mine mobile equipment. Çayeli is currently determining the most economical means of accessing its reserves at depth. Alternatives being reviewed include extending the existing shaft or increasing trucking capacity. A decision in this regard is expected in 2003 and the capital costs of the chosen alternative will be established at that time. The costs associated with this are not included in the 2003 capital estimate.

Çayeli should fully repay its existing debt by mid-2004 with scheduled debt repayments of $7 million in 2003 and $3 million in 2004.

In 2003, it is expected that Çayeli will be in a position to finance its capital program, meet its debt repayment obligations and pay dividends to its shareholders.

*Sources and Uses of Cash – Pyhäsalmi*

The Company acquired Pyhäsalmi on March 19, 2002. Pyhäsalmi generated $12 million of positive free cash flow in the nine months ended December 31, 2002, as shown in the chart below:

| *Pyhäsalmi Sources and Uses of Cash* | | **9 Months** |
|---|---|---|
| (millions of Canadian dollars) | | **2002** |
| Operating cash flows | **$** | **20** |
| Capital expenditures | | **(8)** |
| Free cash flow | **$** | **12** |

In 2002, capital spending at Pyhäsalmi included mine development, construction of a new waste pass and modifications to the mill control room. Capital expenditures at Pyhäsalmi are expected to be lower than in 2002 for the foreseeable future. The planned capital expenditures in 2003 are estimated at $3 million and include underground development and the addition of a dust extraction system in the mill.

As part of Inmet's overall growth objective, Pyhäsalmi is exploring ways to expand its operation. It would be expected that future capital projects will be funded through operating cash flow.

*Sources and Uses of Cash – Troilus*

The following table shows details of Troilus' cash flows:

*Troilus Sources and Uses of Cash*

| (millions of Canadian dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Operating cash flows, before working capital changes | **$** | **18** | $ | 17 |
| Working capital changes | | **14** | | (9) |
| Capital expenditures | | **(8)** | | (4) |
| Long-term stockpile | | **–** | | (3) |
| Free cash flow | **$** | **24** | $ | 1 |

In 2002, Troilus generated $24 million in free cash flow. This was higher than 2001 primarily due to positive working capital changes in 2002 from the advance receipt of its gold receivables. In 2003, the working capital balance should reduce slightly from the December 31, 2002 balance as a result of reduced production in 2003 compared to 2002.

In 2002, Troilus spent $4 million on capital expenditures, mainly for preparatory development of the J-4 pit, a lift to its tailings dam, and replacement of various mine equipment. In addition, another $4 million spent on stripping costs was capitalized. In 2003, capital requirements should be approximately $3 million, largely for replacement of older equipment and an additional lift to the tailings dam. In addition, expected stripping costs of $3 million will be capitalized.

*Sources and Uses of Cash – Corporate Costs*

As illustrated in the previous charts and in the chart below, the ability to generate free cash flow from operations, together with dividends from Ok Tedi, net of corporate expenditure requirements, has been sufficient, and should continue, to provide funding for further growth initiatives.

*Corporate Sources and Uses of Cash*

| (millions of Canadian dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Dividends/distributions from operations: | | | | |
| Çayeli [(1)] | **$** | **1** | $ | 7 |
| Pyhäsalmi | | **5** | | – |
| Troilus | | **24** | | 1 |
| Ok Tedi | | **6** | | 8 |
| | | **36** | | 16 |
| Spending: | | | | |
| Corporate development and exploration | | **(5)** | | (5) |
| General and administration | | **(5)** | | (5) |
| Investment and other income | | **2** | | 5 |
| Interest expense | | **(6)** | | (4) |
| Reclamation costs, net of asset sales | | **(3)** | | (3) |
| | | **(17)** | | (12) |
| Net corporate cash flows | **$** | **19** | $ | 4 |

(1) Represents the Company's 49 per cent interest to March 31, 2002, and 55 per cent thereafter.

*Sources and Uses of Cash – Acquisitions and Debt*

In March 2002, Inmet used cash of $65 million to acquire the Pyhäsalmi mine. Prior to the acquisition, the Company entered into a credit agreement with a syndicate of Canadian and international banks to finance a portion of the acquisition of Pyhäsalmi. In March 2002, U.S.$30 million of the credit facility was drawn down and during the year, U.S.$1.2 million was repaid.

*Other Sources of Cash*

In addition to cash flows from operations, there are other potential sources of cash, including proceeds from the sale of assets and litigation that if realized could be used to finance the Company's growth strategy.

- In January 2003, the Company received a $5.6 million deferred payment from the 1999 sale of its interest in the Ovaçik mine in Turkey.
- Potential sale proceeds for its NPI relating to the Antamina copper mine located in Peru.
- Potential proceeds if the judgment against Homestake is upheld.

In addition to the sources of cash discussed in this section, in order to meet its growth objective, the Company may require some form of additional financing in order to supplement its current financial resources.

***Financial condition***

The net book value of the Company's assets is summarized below. No value has been attributed to the Antamina NPI or to any potential litigation proceeds related to the judgment against Homestake.

*Net Book Value of Assets*

| (millions of Canadian dollars, except share amounts) | | 2002 | | 2001 |
|---|---|---|---|---|
| Consolidated cash and short-term investments | $ | **76.5** | $ | 63.9 |
| Pyhäsalmi | | **111.7** | | – |
| Ok Tedi | | **65.2** | | 71.1 |
| Troilus | | **42.4** | | 53.1 |
| Çayeli | | **26.8** | | 24.3 |
| Izok | | **26.3** | | 25.4 |
| Petaquilla | | **16.7** | | 16.7 |
| Other | | **14.1** | | 20.4 |
| | | **379.7** | | 274.9 |
| Reclamation liabilities | | **(47.4)** | | (40.4) |
| Convertible debentures [(1)] | | **(53.2)** | | (51.4) |
| Corporate credit facility | | **(45.4)** | | – |
| Outokumpu promissory note | | **(15.3)** | | – |
| Çayeli guaranteed debt | | **(9.9)** | | (8.2) |
| Net book value | $ | **208.5** | $ | 174.9 |
| Shares outstanding | | **39,283,100** | | 35,275,600 |
| Net book value per share | $ | **5.31** | $ | 4.96 |

[(1)] Net of unamortized issue costs and discount of $10.9 million at December 31, 2002.

The amounts in the table represent book value, which is based on historical information. Net realizable values may differ depending on cash flow assumptions, including metal prices and foreign exchange rates. The net book value increased $0.35 per share from 2001 mainly due to the impact the strengthening of the European euro had relative to the Canadian dollar on the Company's net investment in Pyhäsalmi.

The change in the following financial ratios between years reflects the impact of the purchase of Pyhäsalmi in 2002.

*Financial Ratios as at December 31*

| | 2002 | 2001 |
|---|---|---|
| Current ratio | **2.4** | 3.9 |
| Debt to total capitalization | **35%** | 25% |

In evaluating its leverage, the Company considers the outstanding convertible debentures as debt; for that reason the convertible debentures are reflected as debt in the debt to total capitalization ratio. For financial reporting purposes, the convertible debentures are allocated between equity and debt on the balance sheet.

**Management Resources and Systems**

To execute its strategy, the Company has management systems and controls in place to ensure the proper integration of acquisitions or expansion of existing operations. In addition, it has systems in place to ensure information is disclosed accurately and on a timely basis to the capital markets. Finally, it has a system to manage risks.

The Company's current management system includes a core executive team to whom all critical information is provided. Given the current size of the Company, this is considered appropriate.

Compensation of the executive team is linked to achievement of the Company's strategic objectives. The Company reports its objectives in its annual report and when appropriate, but at least annually, the Company reports on its level of achievement of these goals. One of Inmet's 2002 objectives related to integration of Pyhäsalmi. As with any acquisition, the executive team was evaluated and compensated for successfully integrating Pyhäsalmi into the existing management information systems, including ensuring accurate and complete information is available on a timely basis to meet regulatory reporting requirements.

The compact size of the Company makes its management systems, as described above, effective. The Company's goal is to grow in a disciplined manner to allow the Company to ensure its management information systems, including its risk management and reporting systems, develop in the same systematic and thorough manner.

## RESULTS AND KEY PERFORMANCE INDICATORS

Net income in 2002 was $7.4 million or $0.09 per share. In the previous year net income was $18.9 million or $0.44 per share and included a $15 million reduction in the Company's provision for reclamation costs as a result of substantial reductions in future estimated spending at its closed mine properties.

A combination of flat copper and zinc prices, along with the Company's recognition of $4.7 million in stock based compensation expenses, somewhat offset an increase in income from the acquisition of Pyhäsalmi in 2002.

The table below presents a summary of Inmet's consolidated statements of operations by source.

| (millions of Canadian dollars, except per share amounts) | | 2002 | | 2001 |
|---|---|---|---|---|
| **Operations' earnings** [1] | | | | |
| Çayeli [2] | **$** | **24.9** | $ | 6.6 |
| Pyhäsalmi | | **9.4** | | – |
| Troilus | | **12.2** | | 9.7 |
| | | **46.5** | | 16.3 |
| Corporate development and exploration | | **(4.9)** | | (4.9) |
| General and administration | | **(5.2)** | | (4.5) |
| Stock based compensation | | **(4.7)** | | (0.5) |
| Investment and other income | | **2.7** | | 5.3 |
| Interest expense | | **(8.3)** | | (3.1) |
| Income taxes | | **(12.6)** | | (4.7) |
| Non controlling interest | | **(6.1)** | | – |
| Reduction in provision for reclamation costs | | **–** | | 15.0 |
| **Net income** | **$** | **7.4** | $ | 18.9 |
| **Basic and diluted net income per common share** | **$** | **0.09** | $ | 0.44 |

[1] Sales less cost of sales and amortization.
[2] For the period up to and including March 31, 2002, this represents Inmet's 49 per cent proportionate interest. From April 1, 2002 forward, accounting for Çayeli has been on a consolidated basis.

There are a number of developments that affect the comparability of reported results, including the consolidation of the results of Pyhäsalmi beginning April 1, 2002, the consolidation of the results of Çayeli beginning April 1, 2002 (previously proportionately consolidated) and, beginning January 1, 2002, recognition of stock based compensation expense for options issued under the Company's stock option plans.

The following table identifies changes in net income between 2002 and 2001:

| (millions of Canadian dollars) | | Change |
|---|---|---|
| Increase in sales volume at Çayeli | $ | 7 |
| Increase in metal prices: | | |
| Çayeli | | 2 |
| Troilus | | 8 |
| Increase in operating costs: | | |
| Çayeli | | (2) |
| Troilus | | (5) |
| Acquisition of Pyhäsalmi | | 8 |
| Stock based compensation expense | | (5) |
| Increase in interest expense | | (4) |
| Sales tax payment from Antamina | | (4) |
| Other | | (2) |
| Reclamation costs provision reduction | | (15) |
| **Decrease in net income** | $ | (12) |

The table does not include dividends from Ok Tedi as the Company's investment in Ok Tedi is cost accounted. In 2002, $6 million in dividends received from Ok Tedi were accounted for as a reduction in the Company's carrying value of Ok Tedi. Ok Tedi did not report a profit in 2002. Dividends paid out of Ok Tedi's earnings accumulated subsequent to April 1, 2000 will be included in the Company's earnings. In 2003 it is expected that Ok Tedi will earn a profit and the Company would therefore recognize a portion of Ok Tedi dividends in its earnings.

**Sales**

The Company's consolidated sales by operation, metal and volume are presented below:

| (millions of Canadian dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| **Net sales by operation** | | | | |
| Çayeli [1] | **$** | **73.6** | $ | 28.4 |
| Pyhäsalmi [1] | | **47.7** | | – |
| Troilus | | **90.7** | | 78.4 |
| | **$** | **212.0** | $ | 106.8 |
| **Net sales by metal** | | | | |
| Copper [1] | **$** | **80.2** | $ | 30.4 |
| Zinc [1] | | **32.8** | | 5.3 |
| Gold | | **80.6** | | 69.3 |
| Other | | **18.4** | | 1.8 |
| | **$** | **212.0** | $ | 106.8 |

| | 2002 | 2001 |
|---|---|---|
| **Sales by metal volume** | | |
| Copper (tonnes) [1] | **51,100** | 23,400 |
| Zinc (tonnes) [1] | **56,800** | 11,000 |
| Gold (ounces) | **167,000** | 158,300 |

[1] Sales include 49 per cent of Çayeli's sales up to March 31, 2002 and 100 per cent thereafter. Pyhäsalmi's sales are included commencing on April 1, 2002.

Net sales increased substantially in 2002 compared to 2001 primarily as a result of the acquisition of Pyhäsalmi and the consolidation of Çayeli, which together increased net sales by $78 million in 2002. In addition, increased sales volumes at Çayeli and Troilus in combination with higher gold and copper prices in 2002, compared to 2001, accounted for the remaining $27 million increase in net sales.

In 2002, copper and gold prices realized were slightly higher than in 2001 while zinc prices were slightly lower. The following chart includes metal prices for the past two years:

| | 2002 | 2001 |
|---|---|---|
| **Realized metal prices** | | |
| Copper (U.S.$ per pound) | **U.S.$0.70** | U.S.$0.68 |
| Zinc (U.S.$ per pound) | **U.S.$0.35** | U.S.$0.37 |
| Gold (U.S.$ per ounce) | **U.S.$317** | U.S.$296 |

In 2002, the realized gold price at Troilus exceeded the 2001 realized price due to the upward trend in gold prices, especially in the latter half of the year. Troilus recorded minimal gains from gold

hedging in 2002 as its hedge price of gold was only modestly above the average spot price for the year. Gains from hedging totalled $5 million in 2001.

The overall impact of the increase in copper and gold prices increased revenues by $10 million in 2002 compared to 2001. The decline in zinc prices had a minimal impact on revenues. At Çayeli, higher sales volumes for copper and zinc contributed an additional $13 million in revenue.

*2003 Outlook for Sales*

Copper and zinc sales volumes should increase in 2003 due to a full year of consolidated results from Çayeli and Pyhasälmi. Gold sales volumes are expected to decline modestly at Troilus due to a drop in production as mining moves into lower grade zones.

Net sales are significantly affected by fluctuations in metal prices and in the exchange rate between the Canadian dollar, United States dollar and the European euro.

The prices of metals that Inmet produces vary with market supply and demand. The following table illustrates the sensitivity of the Company's net income to changes in metal prices based on 2003 sales estimates:

| | Change in Metal Prices | Effect on Net Income [1] | Effect Per Share |
|---|---|---|---|
| Copper (per pound) | U.S.$0.10 | $15 million | $ 0.38 |
| Zinc (per pound) | U.S.$0.05 | $ 3 million | $ 0.08 |
| Gold (per ounce) | U.S.$10.00 | $ 1 million | $ 0.03 |

[1] Calculations include hedging in place at December 31, 2002. Calculations assume that all dividends received from Ok Tedi are recorded as income.

In order to mitigate the impact of declining metal prices, Inmet from time to time enters into certain hedge transactions. The Company has hedging policies for both metals and currencies. The goal of any particular hedge program is to maintain sufficient liquidity for the relevant operation to meet its commitments while maintaining maximum leverage to upward metal price movements.

The following table includes the Company's gold hedging transactions, in relation to Troilus, as at December 31, 2002:

| | Hedge Volume | Percentage of Anticipated Production | Average Price (per ounce) |
|---|---|---|---|
| **Gold** | | | |
| 2003 forward sales | 87,000 ounces | 55% | U.S.$325 |
| 2004 forward sales | 72,000 ounces | 40% | U.S.$319 |
| 2005 forward sales | 37,000 ounces | 25% | U.S.$322 |

The Company has used forward sales as a means to ensure a certain level of liquidity in its Troilus operation and guarantee that a certain percentage of production will be sold at an attractive price. The Company may consider additional forward sales of gold in order to ensure positive cash flow from Troilus for its remaining mine life.

All hedging transactions are under margin-free facilities and as at December 31, 2002, based on a spot price of U.S.$347 per ounce, the unrealized loss on the Company's gold hedges was $9 million.

The Company currently has not hedged any of its base metal exposure.

In addition to copper, zinc and gold, Inmet has some exposure to pyrite prices. Pyrite is a metal by-product of the Pyhäsalmi operation. It accounts for 20 per cent of Pyhäsalmi's net sales and five per cent of the Company's consolidated net sales. Pyrite is used for energy production, sulphuric acid production and iron oxide applications. The price is not influenced solely by any one of these markets. The price received by Pyhäsalmi for its pyrite sales has been constant over the past years and there is no indication to expect otherwise in the near future.

The Company's main currency exposures are to the United States dollar and, to a lesser extent, the European euro. The impact of a $0.05 weakening in the Canadian to United States dollar exchange rate would increase net income by approximately $3 million ($0.08 per share). A $0.05 increase in the Canadian dollar to the European euro would decrease net income by approximately $1 million ($0.03 per share).

Revenue from Troilus, which is denominated in United States dollars, is significantly at risk to a weakening in the value of the United States dollar. In recent history there has been a negative correlation between the United States dollar and gold prices. The Company expects United States dollar denominated gold prices to rise in the event of a fall in the United States dollar.

In order to mitigate some of the risk of a weakening United States dollar, the Company has put in place the following hedge structure for United States dollars, in relation to Troilus, for the years 2003 to 2005:

| | Hedge Volume | Percentage of Anticipated U.S.$ Volume | Average Price |
|---|---|---|---|
| **Currency** | | | |
| 2003 bought put options | U.S.$18 million | 35% | $ 1.5033 |
| 2003 sold call options | U.S.$18 million | 35% | $ 1.5933 |
| 2004-05 bought put options | U.S.$28.5 million | 30% | $ 1.5033 |
| 2004-05 sold call options | U.S.$28.5 million | 30% | $ 1.5933 |

As at December 31, 2002 the unrealized loss on the Company's currency hedges was $2 million, based on a Canadian dollar to United States dollar spot exchange of 1.58.

Credit risk, with respect to the commodity and currency contracts outlined above, arises from the potential failure of counterparties to settle on contracts that are favourable to the Company. The Company manages this risk by dealing with highly-rated counterparties.

## Results of Operations

The Company established performance objectives at each of its operations for 2002. The following includes a discussion of performance in 2002 at each operation in comparison to the prior year and to the 2002 forecast as disclosed in the Company's third quarter interim management's discussion and analysis. In addition, a discussion of 2003 objectives and how these past results may impact on future results is included.

### *Çayeli*

*Key Performance Indicators* (100 per cent)

| | 2001 Actual | **2002 Actual** | 2002 Forecast | 2003 Objective |
|---|---|---|---|---|
| Metal production: | | | | |
| Copper tonnes | 33,000 | **32,600** | 38,000 | 39,000 |
| Zinc tonnes | 25,300 | **33,100** | 38,000 | 36,000 |
| Cash cost [1] | U.S.$0.47 | **U.S.$0.43** | U.S.$0.43 | U.S.$0.40 |
| Total cost [1] | U.S.$0.51 | **U.S.$0.48** | U.S.$0.47 | U.S.$0.45 |

[1] per pound of copper

Çayeli did not achieve its latest forecast as a result of a ground fall event experienced in the mine on October 25, 2002. Production was suspended to perform rehabilitation work in the main access ramp and other affected areas. On December 9, mining recommenced from the lower levels of the ore body at a reduced production rate of approximately 50 per cent of capacity. A ramp-up to full capacity is expected by the end of the second quarter of 2003.

Costs incurred in 2002 related to the standby period and rehabilitation, totalling U.S.$4.0 million, have been recorded as an insurance receivable as at December 31, 2002. The extent of insurance coverage has not yet been finalized.

Copper production at Çayeli was consistent with 2001 and zinc production exceeded 2001 levels. Production in the early part of 2001 was affected by a strike at the mine which lasted from December 7, 2000 to March 15, 2001. Sales in 2003 will be negatively impacted while inventory and receivables are built up to typical levels during the production ramp-up period.

Cash costs of U.S.$0.43 per pound of copper were lower than 2001 cash costs of U.S.$0.47 per pound as a result of lower treatment and refining costs and increased by-product credits from higher zinc production. Costs in relation to the production suspensions in 2002 and 2001, and mine rehabilitation in 2002 have been excluded from unit cash costs.

*Çayeli Financial Information*

(49 per cent share to March 31, 2002, 100 per cent thereafter)

| (millions of Canadian dollars unless otherwise stated) | **2002** | 2001 |
|---|---|---|
| **Sales analysis** | | |
| Copper sales (tonnes) | **32,700** | 15,600 |
| Copper price (U.S.$ per pound) | **$ 0.70** | $ 0.68 |
| C$/U.S.$ exchange rate | **$ 1.57** | $ 1.55 |
| Gross copper sales | **$ 79.9** | $ 36.1 |
| Copper processing charges and freight | **(26.9)** | (13.8) |
| Net copper sales | **53.0** | 22.3 |
| Net zinc sales | **17.5** | 5.3 |
| Other metal sales | **3.1** | 0.8 |
| Net sales | **$ 73.6** | $ 28.4 |
| **Cost analysis** | | |
| Mill throughput (tonnes) | **757,000** | 400,100 |
| Direct cash costs (U.S.$ per tonne) | **$ 29.91** | $ 28.18 |
| Direct costs of production | **$ 35.4** | $ 17.5 |
| Costs incurred during strike | **–** | 1.3 |
| Change in inventory | **5.6** | (1.1) |
| Amortization and other non cash costs | **7.7** | 4.1 |
| Operating costs | **$ 48.7** | $ 21.8 |
| **Operating earnings** | **$ 24.9** | $ 6.6 |
| **Operating cash flows** | **$ 30.3** | $ (0.4) |

The Company acquired an additional six per cent of Çayeli in the first quarter of 2002, bringing its ownership interest to 55 per cent; as a result, effective April 1, 2002, Çayeli was fully consolidated in Inmet's results. Prior to April 1, 2002, Çayeli was proportionately consolidated. Çayeli's operating earnings and operating cash flows in 2002 were higher than in 2001 as a result of the full consolidation of its results with those of the Company and higher sales volumes. The following table illustrates the impact on operating earnings from the full consolidation:

| (millions of Canadian dollars) | **2002** | 2001 |
|---|---|---|
| Inmet's 49% share of operating earnings | **$ 14.3** | $ 6.6 |
| Inmet's additional 6% share of operating earnings from April 1, 2002 to December 31, 2002 | **1.2** | – |
| Minority interest share | **9.4** | – |
| | **$ 24.9** | $ 6.6 |

Operating cash flows also increased from 2001 mainly due to a draw down of accounts receivable and inventory during the production suspension in the fourth quarter of 2002. Notwithstanding the temporary production suspension, Çayeli was able to pay a dividend to shareholders, of which the Company received $1.8 million, net of withholding taxes.

*2003 Outlook for Çayeli*

The ground fall event in 2002 will have an impact on 2003 results. The gradual ramp-up of production in the first half of 2003 should result in lower revenues than would otherwise be the case, but with increased throughput capacity and higher copper grades expected in 2003 compared to 2002, revenues are expected to surpass 2002 levels. Inventories and receivables at Çayeli at December 31, 2002 were at minimal balances which will negatively impact cash flows in 2003 as levels are increased to normal. Operating earnings and cash flows could be impacted in 2003 depending on the extent of insurance coverage as there is a risk that the full amount of the claim will not be reimbursed. Also, should the period of lower production extend longer than expected, the maximum claim for lost profits under the insurance policy is U.S.$10 million.

The 2003 objectives for Çayeli include: increasing annualized throughput to a rate of 1.15 million tonnes (tonnage expected is approximately 950,000 tonnes due to the reduction in production estimates in the first half of 2003); producing 39,000 tonnes of copper and 36,000 tonnes of zinc; and, achieving an average cash cost of U.S.$0.40 per pound of copper.

Alternatives to access the deep ore zone are being reviewed in 2003. In addition, further exploration drilling in the vicinity of the Çayeli ore body will continue in efforts to further grow reserves.

A revised lease for the Rize, Turkey port facility that Çayeli currently uses to ship its concentrates has been under negotiation since 1999. Çayeli's right to use the port is also the subject of various litigation proceedings between Çayeli, the Turkish Department of Transportation and the private operator of the port. Such proceedings should be concluded during 2003. In the meantime, Çayeli continues to seek a commercial settlement of the lease terms and the litigation. If no settlement is reached or if the legal proceedings are adversely decided against Çayeli, it could incur higher costs. Çayeli has been investigating the use of alternative port facilities. In addition, the current collective agreement at Çayeli expires in May 2003.

***Pyhäsalmi***

*Key Performance Indicators* (100 per cent)

| | 9 Months 2002 Actual | 2002 Actual [1] | 2002 Forecast [1] | 2003 Objective |
|---|---|---|---|---|
| Metal production: | | | | |
| Copper tonnes | **11,200** | 14,400 | 13,000 | 12,700 |
| Zinc tonnes | **26,300** | 34,500 | 32,000 | 32,400 |
| Pyrite tonnes | **396,500** | 570,500 | 600,000 | 710,000 |
| Cash cost [2] | **U.S.$0.28** | U.S.$0.28 | U.S.$0.30 | U.S.$0.36 |
| Total cost [2] | **U.S.$0.47** | U.S.$0.47 | U.S.$0.50 | U.S.$0.57 |

[1] represents full year for information purposes only
[2] per pound of copper

At Pyhäsalmi, production in 2002 exceeded the Company's expectations and cash costs of U.S.$0.28 per pound were better than expected for the year. Total costs of U.S.$0.47 per pound include amortization of capital assets acquired.

*Pyhäsalmi Financial Information* (100 per cent)

| (millions of Canadian dollars unless otherwise stated) | | 9 Months 2002 |
|---|---|---|
| **Sales analysis** | | |
| Copper sales (tonnes) | | **11,400** |
| Copper price (U.S.$ per pound) | **$** | **0.71** |
| C$/U.S.$ exchange rate | **$** | **1.52** |
| Gross copper sales | **$** | **27.0** |
| Copper processing charges and freight | | **(8.5)** |
| Net copper sales | | **18.5** |
| Net zinc sales | | **15.3** |
| Other metal sales | | **13.9** |
| Net sales | **$** | **47.7** |
| **Cost analysis** | | |
| Mill throughput (tonnes) | | **938,800** |
| Direct cash costs (€ per tonne) | **€** | **21.20** |
| Direct costs of production | **$** | **30.1** |
| Change in inventory | | **1.3** |
| Amortization and other non cash costs | | **6.9** |
| Operating costs | **$** | **38.3** |
| **Operating earnings** | **$** | **9.4** |
| **Operating cash flows** | **$** | **20.1** |

Pyhäsalmi's earnings are for the nine month period ended December 31, 2002. Mill throughput was higher than the planned annualized rate of 1.2 million tonnes. Copper and zinc grades, as well as recoveries, were higher than anticipated, which resulted in metal production surpassing expectations. Operating costs were lower than originally forecast as a result of improved productivity in the mine.

Costs at Pyhäsalmi are predominantly European euro denominated. Over the nine month period ended December 31, 2002, the European euro strengthened relative to the Canadian dollar and as a result had the effect of increasing costs by $1.6 million once translated to Canadian dollars.

*2003 Outlook for Pyhäsalmi*

In 2003, the plan at Pyhäsalmi includes: produce 12,700 tonnes of copper, 32,400 tonnes of zinc and 710,000 tonnes of pyrite; and, achieve a cash cost of U.S.$0.36 per pound of copper. As seen in 2002, earnings and cash flows at Pyhäsalmi are highly sensitive to exchange rate changes between the European euro and the Canadian dollar. A $0.05 increase in the Canadian dollar to the European euro would decrease net income by approximately $1 million ($0.03 per share).

Other opportunities and growth objectives at Pyhäsalmi include the potential for future throughput increases and future exploration targets.

As the mine matures it is expected that ground conditions will become more challenging. As a result, a rockmechanical management plan will incorporate all aspects of ground control such as monitoring, modelling, expert reviews and audits.

***Troilus***

*Key Performance Indicators* (100 per cent)

| | 2001 Actual | **2002 Actual** | 2002 Forecast | 2003 Objective |
|---|---|---|---|---|
| Metal production: | | | | |
| Gold ounces | 162,600 | **164,900** | 161,000 | 157,000 |
| Cash cost [1] | U.S.$232 | **U.S.$247** | U.S.$255 | U.S.$262 |
| Total cost [1] | U.S.$252 | **U.S.$267** | U.S.$276 | U.S.$281 |

[1] per ounce of gold

Troilus achieved an annual result better than its latest forecast as a result of higher mined gold grades, resulting in higher gold production.

Troilus' operating results for 2002 were comparable to 2001 as the mine produced 164,900 ounces of gold compared to 162,600 the year before. Cash costs per ounce of gold were higher in 2002 due to higher mining costs associated with increased stripping of waste. Costs incurred in relation to the mining of waste in excess of the average life-of-mine strip ratio were capitalized. In 2002, this amounted to $3.8 million and in 2001 to $0.9 million. These costs will be amortized in future periods when the strip ratio is below the life-of-mine average, most of which will be in 2004.

*Troilus Financial Information* (100 per cent)

| (millions of Canadian dollars unless otherwise stated) | | **2002** | | 2001 |
|---|---|---|---|---|
| **Sales analysis** | | | | |
| Gold sales (ounces) | | **167,000** | | 158,300 |
| Gold price (U.S.$ per ounce) | **$** | **317** | $ | 296 |
| C$/U.S.$ exchange rate | **$** | **1.57** | $ | 1.55 |
| Gross gold sales | **$** | **83.2** | $ | 72.1 |
| Gold processing charges | | **(2.6)** | | (2.8) |
| Net gold sales | | **80.6** | | 69.3 |
| Net copper sales | | **8.7** | | 8.1 |
| Other metal sales | | **1.4** | | 1.0 |
| Net sales | **$** | **90.7** | $ | 78.4 |
| **Cost analysis** | | | | |
| Mill throughput (thousands of tonnes) | | **5,730** | | 5,490 |
| Direct cash costs before stripping adjustment [1] | **$** | **12.95** | $ | 11.74 |
| Amortized stripping [1] | | **0.16** | | 0.19 |
| Capitalized stripping [1] | | **(0.67)** | | (0.17) |
| Direct cash costs [1] | **$** | **12.44** | $ | 11.76 |
| Direct costs of production | **$** | **71.3** | $ | 64.5 |
| Change in inventory | | **1.3** | | (1.3) |
| Amortization and other non cash costs | | **5.9** | | 5.5 |
| Operating costs | **$** | **78.5** | $ | 68.7 |
| **Operating earnings** | **$** | **12.2** | $ | 9.7 |
| **Operating cash flows** | **$** | **31.7** | $ | 7.9 |

[1] C$ per tonne

Troilus realized a gold price of U.S.$317 per ounce in 2002 compared to U.S.$296 in 2001 due to the rise in gold price in the second half of the year. Operating earnings increased $2.5 million from the prior year as the rising gold prices offset increased mining costs from mining lower grade ore as part of the push-back of the north pit wall. Operating cash flows in 2002 increased by $23.8 million compared to 2001 due to working capital changes. In 2001, production increased considerably from the preceding year resulting in a $9.5 million build-up of working capital. The benefit of the build-up was realized in 2002 in addition to a benefit realized on advancing receipts of gold receivables. The inflow of cash from working capital in 2002 was $13.8 million.

*2003 Outlook for Troilus*

Overall grades in 2003 are expected to be moderately below those achieved in 2002 and consequently, operating earnings and cash flows in 2003 are also expected to be lower. 2003 objectives include increased throughput of 5.9 million tonnes and production of 157,000 ounces of gold at an average cash cost of U.S.$262 per ounce. Cash costs are expected to rise, which is a direct result of lower production. The Company's gold hedging program is expected to ensure a minimum gold price of U.S.$325 per ounce for approximately 55 per cent of Troilus' anticipated gold sales.

At the end of 2002 and into the start of 2003, Troilus processed a bulk sample from the adjacent J-4 deposit that demonstrated it was an economically viable deposit. J-4 is planned to be mined after the current deposit is mined out towards the end of 2004, followed by one more year of processing the remaining stockpiled ore. From 2003 until its expected closure in 2006, Troilus is expected to generate over $50 million in net cash flow. Due to the strengthening gold price, Troilus is reviewing various alternatives to extend its mine life.

Aside from the impact of metal price fluctuations, Troilus earnings and cash flows are also affected by fluctuations in the fuel price. A change of five cents per litre for diesel fuel impacts operating costs by approximately $0.7 million per year.

Other risks at Troilus over its remaining life include achieving gold grades as indicated in its reserves and maintaining stability of the pit wall. Over the last two years, Troilus has achieved grades consistent to its reserve estimates; therefore the risk of not achieving target grades is minimal. The risk of a geotechnical problem with the pit wall is also low. Independent audits are performed bi-annually to assess the probability of this risk occurring.

### *Ok Tedi*

*Key Performance Indicators* (100 per cent)

| | 2001 Actual | **2002 Actual** | 2002 Forecast | 2003 Objective |
|---|---|---|---|---|
| Metal production: | | | | |
| Copper tonnes | 203,800 | **211,300** | 215,000 | 193,000 |
| Gold ounces | 454,700 | **514,900** | 525,000 | 500,000 |
| Cash cost [1] | U.S.$0.54 | **U.S.$0.44** | U.S.$0.45 | U.S.$0.53 |
| Total cost [1] | U.S.$0.72 | **U.S.$0.59** | U.S.$0.60 | U.S.$0.72 |

[1] per pound of copper

Although 2002 production was above that of 2001, sales in 2002 fell short of results achieved in 2001. This was due to dry weather caused by El Niño weather patterns, which curtailed transportation of copper concentrate on the Fly River and therefore prevented the loading of export vessels at various times in the last quarter of 2002. Substantial rains in early October allowed for the resumption of shipments, however, further dry weather late in the year interrupted shipments again. The latest forecast of 2002 assumed the operations would not be impacted from the effects of the diminishing El Niño conditions. Milling rates were reduced to compensate for the reduced shipping due to limitations in storage capacity for concentrate. The decreased throughput resulted in production of copper and gold falling short of Ok Tedi's latest projections.

*Ok Tedi Financial Information* (100 per cent)

| (millions of Canadian dollars) unless otherwise stated) | **2002** | 2001 |
|---|---|---|
| **Sales analysis** | | |
| Copper sales (tonnes) | **181,100** | 212,000 |
| Copper price (U.S.$ per pound) | **$ 0.70** | $ 0.67 |
| C$/U.S.$ exchange rate | **$ 1.57** | $ 1.55 |
| Gross copper sales | **$ 438.0** | $ 483.8 |
| Gross gold and silver sales | **188.6** | 203.9 |
| Processing charges and freight | **(131.8)** | (160.1) |
| Net sales | **$ 494.8** | $ 527.6 |
| **Cost analysis** | | |
| Mill throughput (thousands of tonnes) | **30,400** | 30,500 |
| Direct cash costs (U.S.$ per tonne) | **$ 9.03** | $ 8.91 |
| Direct costs of production | **$ 430.5** | $ 420.9 |
| Capital expenditures | **17.6** | 36.4 |
| Tax payments | **29.1** | 48.3 |
| Working capital decrease | **(21.5)** | (50.0) |
| Other | **6.0** | 12.3 |
| Operating costs | **$ 461.7** | $ 467.9 |
| **Available cash flow before dividend payments** | **$ 33.1** | $ 59.7 |
| **Inmet's 18% share of dividends** | **$ 6.0** | $ 8.0 |

The Company cost accounts for its 18 per cent investment in Ok Tedi. Under this method, earnings will only be recognized on receipt of dividends paid from Ok Tedi's earnings which have accumulated from April 1, 2000. However, when the dividend exceeds the Company's share of post April 1, 2000 earnings from Ok Tedi, the dividend is recorded as a reduction in the carrying value of the Company's investment in Ok Tedi. The $6 million in dividends received in 2002 has been recorded as a reduction in the carrying value of the Company's investment in Ok Tedi since financial accounting losses were recorded at Ok Tedi during the year.

Ok Tedi's available cash flow before dividends in 2002 of $33.1 million was lower than 2001 cash flow of $59.7 million. The decrease is largely due to decreased sales volumes and working capital changes. In 2001, significant receipts from shipments of concentrate, which took place in 2000, added $50 million to cash flow.

*2003 Outlook for Ok Tedi*

Ok Tedi's objectives for 2003 include production of 193,000 tonnes of copper, 500,000 ounces of gold at cash costs of U.S.$0.53 per pound of copper. The Company is expecting to receive approximately $15 million in dividends after withholding tax, of which a portion could be recorded as income.

Metal production in 2003 is expected to be lower than in 2002 due to throughput reduction in the mill. During the first quarter of 2003 the mill shell in one of Ok Tedi's two SAG mills was replaced. This resulted in a 50 per cent throughput reduction over a period of eight weeks. Replacement was originally scheduled for late 2002 but was deferred until January 2003 due to dry weather and other delays. Cash costs of copper are expected to be higher in 2003 due to lower production expectations. Capital expenditures in 2003 are expected to be approximately $34 million. While one SAG mill was replaced in January and February, only half of the plant's flotation capacity was utilized. Ok Tedi used this opportunity to make further modifications to the flotation cells with the objective of improving recovery and production.

Shipments of concentrate continued through the eight week maintenance period and reduced concentrate stockpiles accumulated during the drought in 2002. Ok Tedi's main risk in relation to these and other shipments relates to weather conditions, however, there are strong indications that the El Niño weather pattern is breaking down.

### Corporate Development and Exploration

| (millions of Canadian dollars) | 2002 | 2001 |
|---|---|---|
| Exploration | **$ 3.9** | $ 3.9 |
| Mergers and acquisitions | **1.0** | 1.0 |
| | **$ 4.9** | $ 4.9 |

Spending on corporate development and exploration in 2002 was consistent to 2001, but was higher than the Company's planned level of $3.5 million. This was mainly due to additional exploration costs associated with the Jaguar discovery in Australia.

*2003 Outlook for Corporate Development and Exploration*

The 2003 objective is based on minimal spending of approximately $3 million. Depending on potential growth opportunities and the Company's cash flow, spending will be reassessed as the 2003 year progresses.

### General and Administration

General and administration expenditures of $5.2 million in 2002 are costs related to managing the Company, including strategic direction. The increase in costs from $4.5 million in 2001 largely related to higher compensation costs paid because the corporate objectives were exceeded.

*2003 Outlook for General and Administration*

General and administration costs should decrease moderately in 2003.

### Stock Based Compensation

The Company has retroactively adopted the new Recommendations of the Canadian Institute of Chartered Accountants for the accounting for stock based compensation. The change was applied retroactively from January 1, 2002 with a $0.6 million restatement to opening retained earnings.

Stock based compensation expense has two components – stock options and deferred share units ("DSUs"). The expense recorded due to stock based compensation in 2002 is a result of the Company recognizing the value of the cash stock appreciation right ("SARs") feature on its stock options and DSUs. The SARs were required to be accounted for as a liability, re-measured on an ongoing basis at each reporting date based on changes in the fair value of the underlying stock. The Company measured the compensation cost as the amount by which the quoted market price of the Company's shares exceeded the various option exercise prices to determine the aggregrate liability at each reporting date. Effective in the fourth quarter of 2002, the Company's option holders signed irrevocable waivers allowing the Company to eliminate the SAR feature on all outstanding stock options. From these dates forward, stock based compensation expense will be determined using a fair value approach.

As a result of the appreciation in the Company's share price during 2002, a charge to earnings of $3.4 million was recorded specific to stock options. The expense related to DSUs for 2002 was $1.3 million representing the appreciation in the Company's share price from $3.15 at the start of the year to $6.00 at December 31, 2002. Total stock based compensation expense for 2002 was $4.7 million.

As of the waiver dates, any liability associated with the stock options was reclassified to shareholders' equity. Based on the fair value of stock options at the time of their original grant, there remains an additional $0.3 million to be expensed equally over the next three years.

Similarly, as the Company's directors waived their rights in respect of the SAR feature of the DSUs effective January 1, 2003, the $2.8 million liability associated with the DSUs will be reclassified to shareholders' equity in 2003. As well, there should be no further compensation expense recorded with regard to the existing DSUs.

### Investment and Other Income

| (millions of Canadian dollars) | 2002 | 2001 |
|---|---|---|
| Interest income | $ 1.3 | $ 2.5 |
| Proceeds from insurance settlement | 2.3 | – |
| Gains on sale of assets | – | 4.4 |
| Foreign exchange gain | 0.3 | 0.9 |
| Litigation expense | (0.4) | (3.1) |
| Pension expense | (1.2) | (0.1) |
| Other | 0.4 | 0.7 |
| | $ 2.7 | $ 5.3 |

Interest income was lower in 2002 than in the previous year due to lower short term market interest rates. In September 2002, Çayeli settled an insurance claim relating to damage to its tailings line. The proceeds of $2.3 million were recorded as income as the book value of the damaged tailings line had been fully written off. Litigation costs incurred in 2002 and 2001 relate to the Company's claim against Homestake regarding its failure to complete the purchase of Troilus. In 2001, the Company received $4.4 million from Compañia Minera Antamina S.A. in regard to the collection of a sales tax receivable.

*2003 Outlook for Investment and Other Income*

In 2003, investment and other income may include dividends from Ok Tedi. It is expected that in 2003 earnings from Ok Tedi will surpass the financial losses cumulated from April 1, 2000 (start of cost accounting) to December 31, 2002. Of the $15 million of dividends expected, it is possible that a portion could be reflected as dividend income.

Foreign exchange gains and losses mainly result from changes in the United States dollar exchange rate relative to the United States denominated credit facility balance, which at December 31, 2002 was U.S.$28.8 million. The Canadian dollar to United States dollar exchange rate at December 31, 2002 was 1.58.

Other items which could impact investment and other income in 2003 include potential proceeds from a sale of the Antamina NPI and potential litigation proceeds.

### Interest Expense

| (millions of Canadian dollars) | 2002 | 2001 |
|---|---|---|
| Revolving credit facility | $ 2.0 | $ – |
| Convertible debentures | 1.3 | 1.5 |
| Çayeli project financing | 0.4 | 0.7 |
| Çayeli other interest | 1.6 | – |
| Outokumpu promissory note | 1.0 | – |
| Other | 2.0 | 0.9 |
| | $ 8.3 | $ 3.1 |

Interest expense increased in 2002 compared to 2001 due in large part to additional debt from the draw down of the revolving credit facility and the issuance of a long-term note payable to Outokumpu Oyj. In addition, Çayeli declared a dividend in May 2002, of which only half was paid to shareholders by December 31, 2002. Interest accrued on this dividend payable, of which $1.6 million represents the interest owing to non controlling interests. Other interest charges include imputed interest costs associated with long-term water treatment at the Company's closed sites, imputed interest costs on future reclamation estimates at Pyhäsalmi and amortization to fair value on the promissory note to Outokumpu Oyj. In addition, amortization of financing costs related to the credit facility is included.

*2003 Outlook for Interest Expense*

The interest rate on the note payable to Outokumpu Oyj is fixed at six per cent with repayment due in 2012. The Company's exposure to interest rates relates to its revolving credit facility, which at December 31, 2002 had an outstanding balance of U.S.$28.8 million and bears interest at LIBOR plus 3 per cent, and a loan at Çayeli which bears interest at LIBOR plus 2.25 per cent and has a current balance outstanding of U.S.$6.3 million. The sensitivity to the Company's annualized net income to a one per cent change in interest rates, based on debt balances as at December 31, 2002, is approximately $0.4 million ($0.01 per share). As at the end of 2002, the Company has left its exposure to interest rate fluctuations unhedged.

### Income Tax Expense

| (millions of Canadian dollars) | 2002 | 2001 |
|---|---|---|
| Çayeli taxes | $ 9.8 | $ 5.3 |
| Pyhäsalmi taxes | 1.2 | – |
| Corporate tax expense (recovery) | 0.5 | (0.8) |
| | $ 11.5 | $ 4.5 |

At the corporate level, the Company has significant tax benefits from non-capital tax losses and mining resource pools available to offset taxable income over the foreseeable future. In 2002, $0.2 million (2001 - $0.8 million) of these tax losses was recorded as an asset in anticipation of future taxable income. Also in 2002, a tax expense of $0.7 million was recorded reflecting large corporation taxes and taxes relating to Canadian subsidiaries.

The Turkish tax rate is 50 per cent and includes corporate tax, state and mining tax, and withholding tax. The 2002 tax expense at Çayeli reflects an effective tax rate of 39 per cent, which reflects the benefit of a devaluing Turkish lira on taxable income. Çayeli's effective tax rate in 2001 was 89 per cent, which is higher than the statutory rate of 50 per cent as a result of significant taxable foreign exchange gains. Included in the determination of Çayeli's taxes payable in 2001 were foreign exchange gains of approximately $4 million. This was a result of a significant devaluation of the Turkish lira at a time when Çayeli was holding a large balance of United States dollar denominated net monetary assets.

The statutory tax rate at Pyhäsalmi is 36 per cent which includes corporate tax and withholding tax. The effective rate in 2002 was 13 per cent since interest on intergroup loans reduced the taxes payable.

*2003 Outlook for Income Tax Expense*

With respect to taxable Canadian income, the Company has recognized a future tax asset of $8.1 million. A portion of this asset may be charged to earnings in 2003 subject to profitability of Troilus and potential sale proceeds for the Antamina NPI. The Company has additional Canadian tax losses available to offset future Canadian taxable income and Canadian taxable capital gains in the amount of $178 million for which a tax asset has not been recorded. If it becomes more likely than not that the Company will use a portion of these unrecorded tax losses, the Company will at that time increase its tax asset.

Çayeli's effective tax rate in 2003 is expected to remain at approximately 50 per cent but is subject to foreign exchange movements. Foreign exchange gains are contingent on the degree of devaluation of the Turkish lira, taxable income and the balance of United States dollar denominated net monetary assets.

At Pyhäsalmi, as a result of interest expense on intergroup loans, the effective tax rate is expected to be less than the 36 per cent statutory rate.

## RISK

Inmet's Board of Directors oversees a process to identify, analyze and manage the principal risks in the Company's business. Management is responsible for carrying out the process and reporting periodically to the Board regarding principal risks. The Company has commenced implementation of an enterprise-wide risk management system to ensure that its risk management process uses common concepts, values and terminology throughout Inmet's operations. The following discusses certain principal risks not previously discussed in the management's discussion and analysis but is not, by its nature, all inclusive.

### Financial Risk Factors

***Pension risk***

Inmet maintains defined benefit and defined contribution plans in Canada and the United States. These plans have been self-funded for a number of years with required contributions being funded by surpluses in the pension plans. With the considerable downturn in North American markets over the past two years, the United States pension surplus has been eliminated, and the Canadian pension surplus has dropped considerably.

The Canadian plan includes defined contribution requirements of about $1.2 million per year. In addition, assuming a seven per cent return on pension assets, the defined benefit plan has funding requirements of about $0.6 million per year. It is estimated that the current surplus in the Canadian pension plan may be sufficient to cover the majority of Inmet's 2003 funding requirements. It is expected that in 2004, Inmet will be required to start to fund its combined $1.8 million annual Canadian pension requirements from its cash reserves. As the United States plan has no active members, it is estimated that total funding of U.S.$4 million is required over about six years to fully fund the United States pension plan, assuming a 7.5 per cent return on pension assets.

The pension funding information is based on a number of assumptions, including return on pension assets, rate of compensation increases, retirement age, mortality rates and long-term bond rates. The funding estimates described above are management's best estimates at this time. Actual experience may differ from the Company's assumptions, which may affect funding requirements.

Inmet continually reviews its pension plans in an effort to mitigate increasing costs in providing pensions to employees. For its non-active pension members, the Company will, where it considers it appropriate to do so, consider purchasing annuities, in order to cap its future liability, while at the same time meeting its obligation under its pension plans.

***Financial assurance risk***

Inmet is required to maintain financial assurance instruments with respect to both its performance and financial obligations relating to environmental and other matters. The financial assurance, in the form of letters of credit and surety bonds, amounted to $20 million as at December 31, 2002. In March 2002, the Company obtained a U.S.$10 million secured letter of credit facility, which covers about 75 per cent of such financial assurance requirements. In 2003, it is expected that the Company's financial assurance requirements will decrease to about $15 million and, as a result, the secured facility would cover the majority of the Company's financial assurance requirements.

Inmet holds insurance to protect itself against various risks. Inmet regularly evaluates the risks compared to the relevant insurance cost, to ensure that insurance remains the appropriate risk mitigation vehicle. This evaluation is especially critical in the current environment, where the cost of protection against risks has increased substantially over the last few years. If insurance costs continue to rise, there may be instances where self-insurance becomes the more appropriate form of risk mitigation for Inmet.

## Non-Financial Risk Factors

***Risks inherent in the mining business***

The business of exploring for minerals is inherently risky in nature. Few properties that are explored are ultimately developed into producing mines.

Mineral properties are often non-productive for reasons that cannot be anticipated in advance. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including labour disputes, environmental hazards, industrial accidents and safety issues, unusual or unexpected geological formations, ground control problems and flooding, extreme weather conditions, earthquakes, disparities between reserve estimates and actual production as a result of dilution or estimation errors, and changing regulatory requirements. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruptions of production, increases in production costs, monetary losses, legal liability and adverse government action.

Inmet maintains insurance against risks that are typical in the mining industry in amounts that it believes to be reasonable. However, insurance against certain risks, including certain liabilities for environmental pollution, may not be available to Inmet or to other companies within the industry.

***Competitive risk***

Inmet's primary interests are in copper, zinc and gold, and to a lesser extent in pyrite and silver. With the exception of pyrite, these products are sold by Inmet at world market prices over which Inmet has no influence. However, the Company somewhat reduces its exposure to cyclical swings in individual metal prices and foreign currencies through the diverse geographical settings of its operations and investments and the variety of products they produce. Since the Company has no control over the prices of its principal products, its competitive position depends on its ability to control operating costs. The cost structure of each Inmet operation depends on the location, grade and nature of the ore body as well as the management skills of the operator. The Company's competitive position also depends on its ability to expand its mineral reserves through exploration and acquisitions.

***Environmental risk***

Inmet's operations and investments are subject to environmental laws and regulations in Canada and in other countries, primarily the United States, Turkey, Papua New Guinea and Finland. Permits from a variety of regulatory authorities are required for many aspects of mine operation and reclamation. Future legislation and regulations could cause additional expenses, capital expenditures, restrictions and delays in the development of properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of reclamation plans, Inmet must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays, depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The potential for changes in laws and regulations creates significant uncertainty with regard to the actual environmental and reclamation costs that Inmet could incur in the future. Environmental and regulatory review has become a long, complex and uncertain process which can delay the opening of a new mine or prolong decommissioning activities at closed mines. Regulatory developments or changes in the assessment of conditions at closed mine sites can cause substantial variances, positive or negative, from prior estimates of reclamation liabilities.

Inmet has capped, through insurance, its reclamation project costs at Copper Range, Winston Lake and Norbec. The insurance policy requires the insurer to pay for reclamation expenditures in respect of known conditions, in excess of specific limits at each of the insured sites. The insurer covers overruns above the site limits, to a maximum of $30 million. Based on costs incurred to date and expected future costs, the $30 million maximum limit is not likely to be reached.

***Political risk***

Inmet operates or holds investments in developing countries such as Papua New Guinea and Turkey. Inmet does not regard the developing nature of these countries as a significant deterrent to operation or investment in these countries. Inmet's operations and investments outside Canada could be adversely affected by war, civil disturbances and activities of foreign governments that limit or disrupt markets, restrict the movement of funds or supplies or result in the restriction of contractual rights or the taking of property without fair compensation. These operations and investments could also be adversely affected by changes in Canadian laws and regulations relating to foreign trade, investment and taxation. In order to mitigate political risk, Inmet has from time to time entered into joint venture arrangements with local partners and international financing agencies. However, Inmet does not currently maintain political risk insurance.

***Investment risk***

On February 7, 2002, new arrangements came into effect under which BHP Billiton Limited ("BHP Billiton") transferred its 52 per cent equity interest in Ok Tedi to PNG Sustainable Development Program Limited ("SDPL"). SDPL is independent of the Government of Papua New Guinea ("PNG") and BHP Billiton and has a mandate to use dividend payments from Ok Tedi to fund current and long-term sustainable development projects in Papua New Guinea and in particular, its Western Province.

Under the new arrangements, Ok Tedi operates as an independently managed company. The shareholders of Ok Tedi are SDPL (52 per cent), PNG (30 per cent) and Inmet (18 per cent), with a six member board of directors: one nominee from each shareholder and three independent directors with international mining experience. Ok Tedi will also benefit from an obligation on the part of BHP Billiton to purchase, if requested by Ok Tedi, copper concentrates delivered to the Kiunga port in agreed upon amounts in the event of a drought during the next two years. The shareholders' agreement does not obligate the Company to fund any cash requirements of Ok Tedi.

Communities affected by the operation of Ok Tedi provided their consent to its continued operation under community mine continuation agreements ("CMCAs") between each such community and Ok Tedi. Under the CMCAs, Ok Tedi and its shareholders are released from claims relating to future environmental impacts and Ok Tedi will provide approximately U.S.$47 million in compensation to affected communities over the remaining mine life.

A new environmental regime and long-term mine closure planning process is provided for in the new Ok Tedi arrangements. As part of this regime, Ok Tedi has converted its test dredging operation into a permanent one to mitigate the future impact of aggradation build-up in the Ok Tedi and Fly River systems at an annual cost of approximately U.S.$35 million. Through its ongoing investigations, Ok Tedi has identified the potential of acid rock generation ("ARD") at the dredge sand stockpiles and for the mine waste as one of its significant environmental issues. Although there is no occurrence of ARD at this time, Ok Tedi has identified the need to mine additional limestone to provide a sufficient safety factor for the neutralizing capacity of the waste rock. Ok Tedi has adjusted its mine plans to obtain the necessary levels of future limestone production. In addition, Ok Tedi has established a tax-deductible fund to set aside money over the balance of the remaining mine life for reclamation, the aggregate cost of which is currently estimated to be U.S.$150 million.

Ok Tedi and BHP Billiton are co-defendants in legal proceedings commenced in the State of Victoria, Australia alleging breach of a 1996 settlement agreement relating to earlier claims for damages arising from the environmental impacts of the mine. Ok Tedi is advised that it has good defenses to this action. Inmet is not a party to those proceedings. As a shareholder of Ok Tedi, a limited liability corporation incorporated under the laws of Papua New Guinea, Inmet enjoys the legal protections afforded to shareholders under those laws.

# SUPPLEMENTARY FINANCIAL INFORMATION

## QUARTERLY REVIEW

### 2002

| (unaudited)<br>(thousands of dollars, except per share amounts) | First quarter | Second quarter | Third quarter | Fourth quarter | Year |
|---|---|---|---|---|---|
| **Statements of operations** | | | | | |
| Sales | $ 38,549 | $ 60,080 | $ 52,860 | $ 60,484 | $ 211,973 |
| Cost of sales | (29,838) | (45,748) | (43,076) | (46,837) | (165,499) |
| Corporate development and exploration | (1,132) | (1,711) | (877) | (1,206) | (4,926) |
| General and administration | (1,168) | (1,146) | (1,126) | (1,793) | (5,233) |
| Stock based compensation | (1,584) | (2,353) | 1,366 | (2,081) | (4,652) |
| Net interest and other income | (373) | (822) | (1,367) | (2,986) | (5,548) |
| Capital tax expense | (181) | (182) | (333) | (331) | (1,027) |
| Income tax expense | (2,903) | (4,283) | (1,763) | (2,610) | (11,559) |
| Non controlling interest | – | (2,246) | (1,958) | (1,949) | (6,153) |
| Net income | $ 1,370 | $ 1,589 | $ 3,726 | $ 691 | $ 7,376 |
| Net income (loss) per common share [1] | $ 0.01 | $ 0.02 | $ 0.07 | $ (0.01) | $ 0.09 |

### 2001

| (unaudited)<br>(thousands of dollars, except per share amounts) | First quarter | Second quarter | Third quarter | Fourth quarter | Year |
|---|---|---|---|---|---|
| **Statements of operations** | | | | | |
| Sales | $ 22,691 | $ 26,699 | $ 29,394 | $ 27,975 | $ 106,759 |
| Cost of sales | (20,273) | (22,080) | (24,989) | (23,146) | (90,488) |
| Corporate development and exploration | (1,028) | (829) | (1,354) | (1,693) | (4,904) |
| General and administration | (1,168) | (1,107) | (910) | (1,300) | (4,485) |
| Stock based compensation | – | – | – | (538) | (538) |
| Net interest and other income | (933) | (1,603) | 128 | 4,665 | 2,257 |
| Capital tax expense | (225) | (2) | (181) | 203 | (205) |
| Income tax expense | (1,841) | 58 | (1,514) | (1,217) | (4,514) |
| Reduction in provision for reclamation costs | – | – | – | 15,000 | 15,000 |
| Net income (loss) | $ (2,777) | $ 1,136 | $ 574 | $ 19,949 | $ 18,882 |
| Net income (loss) per common share [1] | $ (0.10) | $ 0.01 | $ (0.01) | $ 0.54 | $ 0.44 |

[1] Net income per common share is calculated as net income (loss), less accretion on equity component of convertible debentures divided by weighted average of shares outstanding for each period.

## FIVE YEAR REVIEW

| Year Ended December 31 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Statements of operations** (000's) | | | | | |
| Sales | $ 211,973 | $ 106,759 | $ 103,940 | $ 107,829 | $ 105,591 |
| Cost of sales | (165,499) | (90,488) | (79,281) | (83,727) | (87,448) |
| Share of earnings (losses) in associated companies | – | – | (263) | 3,184 | 988 |
| Corporate development and exploration | (4,926) | (4,904) | (9,635) | (6,467) | (13,435) |
| General and administration | (5,233) | (4,485) | (6,919) | (6,215) | (9,870) |
| Stock based compensation | (4,652) | (538) | – | – | – |
| Investment and other income | 2,712 | 5,316 | 10,281 | 8,166 | 29,877 |
| Interest expense | (8,260) | (3,059) | (3,795) | (4,015) | (7,578) |
| Capital tax expense | (1,027) | (205) | (856) | (812) | (1,171) |
| Income tax (expense) recovery | (11,559) | (4,514) | (5,035) | (899) | 4,185 |
| Non controlling interest | (6,153) | – | – | – | – |
| Reduction in provision for reclamation costs | – | 15,000 | – | 20,000 | – |
| Write down of mining properties and other provisions | – | – | – | – | (37,500) |
| Earnings (loss) from continuing operations | 7,376 | 18,882 | 8,437 | 37,044 | (16,361) |
| Earnings from discontinued operations | – | – | – | – | 16,349 |
| Gains on sale of discontinued operations | – | – | – | – | 31,050 |
| Net income | $ 7,376 | $ 18,882 | $ 8,437 | $ 37,044 | $ 31,038 |
| **Cash flow** (000's) | | | | | |
| Cash and short-term investments, beginning of year | $ 63,871 | $ 77,259 | $ 93,458 | $ 173,135 | $ 293,591 |
| Cash provided by (used in): | | | | | |
| Operating activities | 73,702 | 6,388 | 14,509 | 3,061 | 5,485 |
| Investing activities | (96,387) | (12,454) | (18,428) | 76,002 | 249,824 |
| Financing activities | 34,750 | (8,055) | (12,280) | (158,740) | (389,007) |
| Discontinued operations | – | – | – | – | 13,242 |
| Foreign exchange gain on cash | 596 | 733 | – | – | – |
| Cash and short-term investments, end of year | $ 76,532 | $ 63,871 | $ 77,259 | $ 93,458 | $ 173,135 |
| **Common share statistics** | | | | | |
| Earnings (loss) per share: | | | | | |
| Continuing operations | $ 0.09 | $ 0.44 | $ 0.14 | $ 0.84 | $ (0.33) |
| Discontinued operations | – | – | – | – | 0.58 |
| Net income per share | $ 0.09 | $ 0.44 | $ 0.14 | $ 0.84 | $ 0.25 |
| Net book value per share at December 31 | $ 6.36 | $ 6.02 | $ 5.36 | $ 4.98 | $ 6.68 |
| Operating cash flow from continuing operations per share | $ 1.92 | $ 0.18 | $ 0.38 | $ 0.08 | $ 0.07 |
| Number of shares outstanding at December 31 (000's) | 39,283 | 35,276 | 36,402 | 38,337 | 38,337 |
| As at December 31 | | | | | |
| **Balance sheets** (000's) | | | | | |
| Current assets | $ 156,425 | $ 130,757 | $ 127,265 | $ 150,567 | $ 238,819 |
| Investments | 66,890 | 72,845 | 80,812 | 81,381 | 137,662 |
| Capital assets | 219,149 | 88,508 | 85,787 | 72,982 | 96,106 |
| Other assets | 32,563 | 17,575 | 20,562 | 18,535 | 12,089 |
| | $ 475,027 | $ 309,685 | $ 314,426 | $ 323,465 | $ 484,676 |
| Current liabilities | $ 65,361 | $ 33,908 | $ 35,546 | $ 41,023 | $ 101,387 |
| Long-term debt | 67,711 | 16,981 | 21,700 | 26,768 | 36,465 |
| Reclamation and other liabilities | 92,282 | 46,441 | 61,997 | 64,569 | 90,572 |
| Shareholders' equity | 249,673 | 212,355 | 195,183 | 191,105 | 256,252 |
| | $ 475,027 | $ 309,685 | $ 314,426 | $ 323,465 | $ 484,676 |
| **Currency exchange rates** | | | | | |
| United States dollar | $ 1.58 | $ 1.59 | $ 1.50 | $ 1.44 | $ 1.53 |
| European euro | $ 1.66 | $ 1.41 | – | – | – |

## PRODUCTION AND UNIT COSTS

| | | 2002 | | 2001 | | 2000 |
|---|---|---|---|---|---|---|
| **PRODUCTION** (Inmet's share) | | | | | | |
| **Copper** (tonnes) | | | | | | |
| Ok Tedi | | 38,000 | | 36,700 | | 36,600 |
| Çayeli [1] | | 17,300 | | 16,200 | | 18,300 |
| Pyhäsalmi [2] | | 11,200 | | – | | – |
| Troilus | | 6,800 | | 7,800 | | 4,800 |
| | | 73,300 | | 60,700 | | 59,700 |
| **Zinc** (tonnes) | | | | | | |
| Çayeli [1] | | 17,600 | | 12,400 | | 12,700 |
| Pyhäsalmi [2] | | 26,300 | | – | | – |
| | | 43,900 | | 12,400 | | 12,700 |
| **Gold** (ounces) | | | | | | |
| Troilus | | 164,900 | | 162,600 | | 122,500 |
| Ok Tedi | | 92,700 | | 81,800 | | 96,100 |
| | | 257,600 | | 244,400 | | 218,600 |
| **UNIT COSTS** | | | | | | |
| **Çayeli** (U.S.$ per pound of copper) | | | | | | |
| Direct cash costs | $ | 0.37 | $ | 0.32 | $ | 0.32 |
| Copper processing charges and freight | | 0.24 | | 0.27 | | 0.27 |
| Net metal credits | | (0.18) | | (0.12) | | (0.16) |
| **Cash cost** | | 0.43 | | 0.47 | | 0.43 |
| Amortization and other non cash costs | | 0.05 | | 0.04 | | 0.05 |
| **Total cost** | $ | 0.48 | $ | 0.51 | $ | 0.48 |
| **Pyhäsalmi** (U.S.$ per pound of copper) [2] | | | | | | |
| Direct cash costs | $ | 0.79 | $ | – | $ | – |
| Copper processing charges and freight | | 0.22 | | – | | – |
| Net metal credits | | (0.73) | | – | | – |
| **Cash cost** | | 0.28 | | – | | – |
| Amortization and other non cash costs | | 0.19 | | – | | – |
| **Total cost** | $ | 0.47 | $ | – | $ | – |
| **Troilus** (U.S.$ per ounce of gold) | | | | | | |
| Direct cash costs | $ | 287 | $ | 256 | $ | 360 |
| Stripping costs | | (11) | | – | | (66) |
| Processing charges and freight | | 45 | | 52 | | 47 |
| Metal credits | | (74) | | (76) | | (78) |
| **Cash cost** | | 247 | | 232 | | 263 |
| Amortization and other non cash costs | | 20 | | 20 | | 16 |
| **Total cost** | $ | 267 | $ | 252 | $ | 279 |
| **Ok Tedi** (U.S.$ per pound of copper) | | | | | | |
| Direct cash costs | $ | 0.59 | $ | 0.60 | $ | 0.63 |
| Processing charges and freight | | 0.20 | | 0.22 | | 0.24 |
| Metal credits | | (0.35) | | (0.28) | | (0.35) |
| **Cash cost** | | 0.44 | | 0.54 | | 0.52 |
| Amortization and other non cash costs | | 0.15 | | 0.18 | | 0.19 |
| **Total cost** | $ | 0.59 | $ | 0.72 | $ | 0.71 |

[1] For the period up to and including March 31, 2002, Inmet's share represents 49 per cent. From April 1, 2002 forward, Inmet's share represents 55 per cent.

[2] The production and unit costs for Pyhäsalmi represent the operation's results from April 1, 2002.

# FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Inmet Mining Corporation (the "Corporation"), and its subsidiaries, including Çayeli Bakir Isletmeleri A.Ş. ("Çayeli") and Pyhäsalmi Mine Oy ("Pyhäsalmi"). Prior to April 1, 2002, Çayeli was proportionately consolidated.

### BASIS OF SEGMENTED DISCLOSURE

The Corporation's operations are managed independently of each other primarily because of their geographical diversity. Each operation retains its own management team and is responsible for compiling its own financial information. The segmented financial statements reflect this structure.

The Corporation's interests in operating properties include Çayeli, Pyhäsalmi, Troilus and Ok Tedi Mining Limited ("Ok Tedi"). Çayeli is a 55 per cent owned mine (49 per cent prior to April 1, 2002) located in Turkey, which produces copper and zinc concentrates. Pyhäsalmi is a wholly-owned copper and zinc mine located in Finland. Troilus is a wholly-owned gold mine located in Quebec. The Corporation also owns an 18 per cent share in Ok Tedi which owns a copper and gold mine located in Papua New Guinea.

### CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of balances with banks and investments in money market instruments. These investments are carried at cost, which approximates market. Cash and cash equivalents consist of investments with maturities of 90 days or less at the date of purchase. Short-term investments consist of investments with maturities between 91 days and one year at the date of purchase.

### INVESTMENTS

The Corporation accounts for its investment in Ok Tedi using the cost method. Under this method, earnings will be recognized only when dividends are received from Ok Tedi's earnings which have accumulated from April 1, 2000, which is the date the Corporation started cost accounting for its investment in Ok Tedi. When the dividends received subsequent to April 1, 2000 exceed the Corporation's share of Ok Tedi's accumulated earnings during that same period, the dividend is recorded as a reduction in the carrying value of the investment.

### INVENTORIES

Inventories of stockpiled ore and inventories of concentrates and gold doré, which are ready for sale, but for which title has not yet been transferred to the purchaser, are valued at the lower of cost and net realizable value. The inventory value includes costs directly related to bringing the inventory to its current condition and location, such as mining, milling and transport costs. Materials and supplies are valued at the lower of average cost and replacement cost. Inventories of stockpiled ore which are not expected to be processed in the next year are classified as other assets.

### CAPITAL ASSETS

Exploration costs are charged to earnings in the year in which they are incurred. When it is determined that development of a property is reasonably foreseeable, further development and exploration expenditures, including interest and financing costs on funds borrowed, are capitalized. When production commences, these costs, together with property acquisition costs, are reclassified to property and amortized on the unit-of-production method based on the economic life of the related deposit.

Property, which consists primarily of ore reserves, is recorded at cost and amortized on the unit-of-production method. Plant and equipment are recorded at cost and amortized based on the straight-line method over their estimated useful lives, which range from four to fifteen years.

Mining costs associated with waste rock removal at Troilus are capitalized when the actual strip ratio exceeds the average life-of-mine strip ratio, and amortized when the actual strip ratio is below the expected average life-of-mine strip ratio. The average life-of-mine strip ratio is calculated as estimated tonnes of waste material to be mined divided by estimated tonnes of ore to be mined.

The Corporation reviews and evaluates the recoverability of capital assets periodically based on estimated future undiscounted net cash flows from each property. Net cash flows include estimates on recoverable reserves, future metal prices, and future operating, capital and reclamation costs. If estimated future net cash flows are less than the carrying value of the property the difference is charged against income. In addition, the Corporation considers other factors, including the ability to obtain sufficient financing for the project or the ability to recover its costs through a disposition of the property. Estimates of future cash flows are subject to risks and uncertainties. It is possible that changes could occur which may affect the recoverability of capital assets. In certain circumstances, the Corporation evaluates the recoverability of capital assets based on estimated net realizable value.

### RECLAMATION COSTS

Reclamation costs are provided for over the estimated lives of the mines to which they relate. The resulting obligation is reduced as reclamation and closure expenditures are made. Provisions with respect to long-term water treatment obligations and provisions established through purchase accounting are provided for on a discounted basis. The annual interest cost on the discounted obligation is included in interest expense.

Because of uncertainties concerning environmental remediation, the ultimate cost to the Corporation of future site restoration could differ from the amounts provided. The estimate of the total liability of future site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Corporation's operations becomes available. Future changes, if any, in requirements, laws, regulations and the Corporation's operations may be significant and would be recognized prospectively, as a change in estimate, when applicable. The Corporation is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

### EMPLOYEE FUTURE BENEFITS

The Corporation provides retirement benefits for substantially all of its employees under a number of defined benefit and defined contribution plans. The defined benefit plans' pension costs are actuarially determined each year using the accrued benefit method and management's best estimate of expected plan investment performance, terminations and retirement ages of plan members. Plan obligations are discounted using current market long-term interest rates and plan assets are presented at fair value. Pension expense includes current service costs and the amortization of the transitional asset and experience losses on a straight-line basis over the expected average remaining service lives of the employee groups. Any gains or losses on plan settlements or curtailments are recognized in income in the period incurred. Any differences arising between the cumulative amounts expensed and the funding contributions are reflected in the balance sheet as either a liability or an asset.

### FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end exchange rates, whereas non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the transaction date. Income and expense items are translated at the exchange rate in effect on the date of the transaction. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statements of operations.

Self-sustaining subsidiaries are accounted for under the current-rate method. Under this method the assets and liabilities of Çayeli and Pyhäsalmi are translated into Canadian dollars at rates of exchange in effect at year end. The revenues and expenses of these foreign operations are translated at the average exchange rates prevailing during the year. Foreign currency translation adjustments are deferred and included as a separate component of shareholders' equity. The Corporation has determined that the United States dollar is the functional currency of Çayeli and that the European euro is the functional currency of Pyhäsalmi.

### REVENUE RECOGNITION

Revenue from the sale of copper, zinc and pyrite concentrate is recognized when title passes to the purchaser which generally occurs upon delivery, and in some cases, upon shipment. Revenue from the sales of gold bullion is recognized on transfer of title to the purchaser.

Prices used to recognize revenues are based on market prices prevailing at the time of shipment. Adjustments to accounts receivable between the date of recognition and the settlement date, caused by changes in the market prices for the commodities, are adjusted through revenue at each balance sheet date.

Revenue on gold forward sales contracts is recognized as designated production is delivered to meet the contracted commitment at the average gold price realized over the term of the contract. Realized gains in excess of recognized gains are included in other liabilities as deferred revenue.

### FINANCIAL INSTRUMENTS

The Corporation uses gold forward sales to hedge the effect of price changes on a portion of the gold it sells and option contracts to hedge the effect of exchange rate changes on its United States dollar denominated sales. The Corporation views these forwards sales and option contracts as effective hedges and has designated the contracts as hedges of specific exposure.

Hedging transactions are recognized in revenue when the hedged production is sold. Option premiums are amortized to income in relation to the production being hedged.

### STOCK BASED COMPENSATION

The Corporation has retroactively adopted the new Recommendations of the Canadian Institute of Chartered Accountants for the accounting for stock based compensation. This change has been applied retroactively with no restatement to prior periods.

Under this method, stock options are accounted for using a fair value based method. For option awards, fair value is measured at the grant date using the Black-Scholes valuation model and is recognized as compensation expense and equity over the vesting period of the options granted. Consideration paid by employees on exercise of stock options is recorded as share capital. For options with a cash settlement feature, compensation expense is determined and accrued over the vesting period of the options based on the excess of the quoted market value of the respective shares over the exercise price.

### INCOME TAXES

Income taxes are calculated using the liability method of tax accounting. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

### EARNINGS PER SHARE

The treasury stock method is used to calculate diluted earnings per share and assumes that any "in the money" option proceeds would be used to purchase common shares of the Corporation at the average market price during the year.

### USE OF ESTIMATES

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the 2002 presentation.

## AUDITORS' REPORT

**To the Shareholders of Inmet Mining Corporation:**

We have audited the consolidated balance sheets of Inmet Mining Corporation as at December 31, 2002 and 2001 and the consolidated statements of operations, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Toronto, Canada
February 5, 2003

Chartered Accountants

## CONSOLIDATED BALANCE SHEETS

| As at December 31 (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and short-term investments (note 6) | **$ 76,532** | $ 63,871 |
| Accounts receivable | **50,594** | 42,273 |
| Inventories | **24,357** | 20,071 |
| Future income tax asset (note 5) | **4,942** | 4,542 |
| | **156,425** | 130,757 |
| Investments (note 3) | **66,890** | 72,845 |
| Capital assets (note 4) | **219,149** | 88,508 |
| Future income tax asset (note 5) | **3,752** | 4,366 |
| Other assets | **28,811** | 13,209 |
| | **$ 475,027** | $ 309,685 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$ 50,362** | $ 28,750 |
| Current portion of long-term debt (note 6) | **14,999** | 5,158 |
| | **65,361** | 33,908 |
| Long-term debt (note 6) | **67,711** | 16,981 |
| Reclamation liabilities (note 7) | **43,391** | 36,397 |
| Other liabilities (note 8) | **14,347** | 10,044 |
| Future income tax liability (note 5) | **12,433** | – |
| Non controlling interest (note 9) | **22,111** | – |
| | **225,354** | 97,330 |
| Commitments and contingencies (note 12) | | |
| **SHAREHOLDERS' EQUITY** | | |
| Convertible debentures (note 13) | **41,171** | 37,413 |
| Share capital (note 14) | **227,372** | 215,678 |
| Contributed surplus | **66,999** | 66,999 |
| Stock based compensation (note 15) | **3,823** | – |
| Deficit | **(106,820)** | (109,800) |
| Foreign currency translation account (note 10) | **17,128** | 2,065 |
| | **249,673** | 212,355 |
| | **$ 475,027** | $ 309,685 |

(See accompanying notes)

On behalf of the Board:

**Richard A. Ross**
Director

**Paul E. Gagné**
Director

## SEGMENTED BALANCE SHEETS

| As at December 31, 2002 (thousands of dollars) | Corporate | Çayeli (Turkey) | Pyhäsalmi (Finland) | Troilus (Canada) | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and short-term investments | $ 44,637 | $ 22,971 | $ 8,924 | $ – | $ 76,532 |
| Other current assets | 11,631 | 21,627 | 22,677 | 23,958 | 79,893 |
| Investments | 66,890 | – | – | – | 66,890 |
| Capital assets | 26,954 | 55,474 | 104,093 | 32,628 | 219,149 |
| Other assets | 29,063 | 577 | – | 2,923 | 32,563 |
| | $ 179,175 | $ 100,649 | $ 135,694 | $ 59,509 | $ 475,027 |
| **LIABILITIES** | | | | | |
| Current liabilities | $ 18,056 | $ 25,241 | $ 11,133 | $ 10,931 | $ 65,361 |
| Long-term debt | 64,398 | 3,313 | – | – | 67,711 |
| Reclamation liabilities | 43,391 | – | – | – | 43,391 |
| Other liabilities | 6,464 | 1,680 | – | 6,203 | 14,347 |
| Future income tax liability | – | 8,465 | 3,968 | – | 12,433 |
| Non controlling interest | – | 22,111 | – | – | 22,111 |
| | $ 132,309 | $ 60,810 | $ 15,101 | $ 17,134 | $ 225,354 |

| As at December 31, 2001 (thousands of dollars) | Corporate | Çayeli (Turkey) | Pyhäsalmi (Finland) | Troilus (Canada) | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and short-term investments | $ 59,528 | $ 4,343 | $ – | $ – | $ 63,871 |
| Other current assets | 13,040 | 14,692 | – | 39,154 | 66,886 |
| Investments | 72,845 | – | – | – | 72,845 |
| Capital assets | 42,778 | 17,475 | – | 28,255 | 88,508 |
| Other assets | 14,358 | 309 | – | 2,908 | 17,575 |
| | $ 202,549 | $ 36,819 | $ – | $ 70,317 | $ 309,685 |
| **LIABILITIES** | | | | | |
| Current liabilities | $ 10,276 | $ 10,926 | $ – | $ 12,706 | $ 33,908 |
| Long-term debt | 12,064 | 4,917 | – | – | 16,981 |
| Reclamation liabilities | 36,397 | – | – | – | 36,397 |
| Other liabilities | 5,010 | 562 | – | 4,472 | 10,044 |
| | $ 63,747 | $ 16,405 | $ – | $ 17,178 | $ 97,330 |

## CONSOLIDATED STATEMENTS OF OPERATIONS

| For the years ended December 31 (thousands of dollars except per share amounts) | 2002 | 2001 |
|---|---|---|
| Sales | **$ 211,973** | $ 106,759 |
| Cost of sales | **(150,137)** | (84,584) |
| Amortization | **(15,362)** | (5,904) |
| | **46,474** | 16,271 |
| Corporate development and exploration | **(4,926)** | (4,904) |
| General and administration | **(5,233)** | (4,485) |
| Stock based compensation (note 15) | **(4,652)** | (538) |
| Investment and other income (note 16) | **2,712** | 5,316 |
| Interest expense (note 17) | **(8,260)** | (3,059) |
| Capital tax expense | **(1,027)** | (205) |
| Income tax expense (note 5) | **(11,559)** | (4,514) |
| Non controlling interest (note 9) | **(6,153)** | – |
| Reduction in provision for reclamation costs (note 7) | **–** | 15,000 |
| Net income | **$ 7,376** | $ 18,882 |
| Accretion on equity component of convertible debentures | **$ (3,756)** | $ (3,454) |
| Basic and diluted net income per common share (note 14) | **$ 0.09** | $ 0.44 |

(See accompanying notes)

## SEGMENTED STATEMENTS OF OPERATIONS

| For the year ended December 31, 2002 (thousands of dollars) | Corporate | Çayeli (Turkey) | Pyhäsalmi (Finland) | Troilus (Canada) | Total |
|---|---|---|---|---|---|
| Sales | $ – | $ 73,602 | $ 47,694 | $ 90,677 | $ 211,973 |
| Cost of sales | – | (45,128) | (31,390) | (73,619) | (150,137) |
| Amortization | – | (3,542) | (6,907) | (4,913) | (15,362) |
| | – | 24,932 | 9,397 | 12,145 | 46,474 |
| Corporate development and exploration | (4,926) | – | – | – | (4,926) |
| General and administration | (5,233) | – | – | – | (5,233) |
| Stock based compensation | (4,652) | – | – | – | (4,652) |
| Investment and other income | 396 | 2,316 | – | – | 2,712 |
| Interest expense | (6,155) | (2,079) | – | (26) | (8,260) |
| Capital tax expense | (1,027) | – | – | – | (1,027) |
| Income tax expense | (493) | (9,831) | (1,235) | – | (11,559) |
| Non controlling interest | – | (6,153) | – | – | (6,153) |
| Net income (loss) | $ (22,090) | $ 9,185 | $ 8,162 | $ 12,119 | $ 7,376 |

| For the year ended December 31, 2001 (thousands of dollars) | Corporate | Çayeli (Turkey) | Pyhäsalmi (Finland) | Troilus (Canada) | Total |
|---|---|---|---|---|---|
| Sales | $ – | $ 28,402 | $ – | $ 78,357 | $ 106,759 |
| Cost of sales | – | (19,996) | – | (64,588) | (84,584) |
| Amortization | – | (1,795) | – | (4,109) | (5,904) |
| | – | 6,611 | – | 9,660 | 16,271 |
| Corporate development and exploration | (4,904) | – | – | – | (4,904) |
| General and administration | (4,485) | – | – | – | (4,485) |
| Stock based compensation | (538) | – | – | – | (538) |
| Investment and other income | 5,316 | – | – | – | 5,316 |
| Interest expense | (2,374) | (685) | – | – | (3,059) |
| Capital tax expense | (205) | – | – | – | (205) |
| Income tax (expense) recovery | 758 | (5,272) | – | – | (4,514) |
| Reduction in provision for reclamation costs | 15,000 | – | – | – | 15,000 |
| Net income | $ 8,568 | $ 654 | $ – | $ 9,660 | $ 18,882 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended December 31 (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| **Cash provided by (used in) operating activities** | | |
| Net income | $ 7,376 | $ 18,882 |
| Add (deduct) items not affecting cash: | | |
| Amortization | 15,362 | 5,904 |
| Stock based compensation | 4,652 | 538 |
| Future income tax | 7,546 | 334 |
| Non controlling interest | 6,153 | – |
| Reduction in provision for reclamation costs | – | (15,000) |
| Other | 2,625 | 2,719 |
| Distributions in excess of earnings from Ok Tedi | 5,954 | 7,967 |
| Reclamation costs, net of related asset sales | (2,808) | (3,304) |
| Net change in non-cash working capital | 26,842 | (11,652) |
| | 73,702 | 6,388 |
| **Cash provided by (used in) investing activities** | | |
| Acquisitions and dispositions (note 2) | (67,817) | (504) |
| Capital assets | (28,570) | (9,042) |
| Long-term stockpile | – | (2,908) |
| Short-term investments | 24,549 | 4,925 |
| | (71,838) | (7,529) |
| **Cash provided by (used in) financing activities** | | |
| Long-term debt: | | |
| Borrowing | 47,430 | – |
| Repayment | (9,513) | (4,958) |
| Deferred financing costs | (1,696) | (827) |
| Dividend paid to non controlling shareholder | (1,494) | – |
| Issue of share capital | 23 | – |
| Share buyback | – | (2,270) |
| | 34,750 | (8,055) |
| Foreign exchange gain on cash held in foreign currency | 596 | 733 |
| Increase (decrease) in cash and cash equivalents | 37,210 | (8,463) |
| Cash and cash equivalents: | | |
| Beginning of year | 24,042 | 32,505 |
| End of year | 61,252 | 24,042 |
| Short-term investments | 15,280 | 39,829 |
| Cash and short-term investments | $ 76,532 | $ 63,871 |

(See accompanying notes)

## SEGMENTED STATEMENTS OF CASH FLOWS

| For the year ended December 31, 2002 (thousands of dollars) | Corporate | Çayeli (Turkey) | Pyhäsalmi (Finland) | Troilus (Canada) | Total |
|---|---|---|---|---|---|
| **Cash provided by (used in) operating activities** | | | | | |
| Before net change in non-cash working capital | $ (13,156) | $ 25,763 | $ 16,286 | $ 17,967 | $ 46,860 |
| Net change in non-cash working capital | 4,786 | 4,511 | 3,785 | 13,760 | 26,842 |
| | (8,370) | 30,274 | 20,071 | 31,727 | 73,702 |
| **Cash provided by (used in) investing activities** | | | | | |
| Acquisitions and dispositions | (77,242) | – | 803 | – | (76,439) |
| Cash acquired on acquisition | – | 7,876 | 746 | – | 8,622 |
| Capital assets | (1,077) | (11,290) | (7,928) | (8,275) | (28,570) |
| Short-term investments | 24,549 | – | – | – | 24,549 |
| | (53,770) | (3,414) | (6,379) | (8,275) | (71,838) |
| **Cash provided by (used in) financing activities** | 42,015 | (7,265) | – | – | 34,750 |
| Foreign exchange gain (loss) on cash held in foreign currency | – | (99) | 695 | – | 596 |
| Intergroup funding (distributions) | 29,783 | (868) | (5,463) | (23,452) | – |
| Increase in cash and cash equivalents | 9,658 | 18,628 | 8,924 | – | 37,210 |
| Cash and cash equivalents: | | | | | |
| Beginning of year | 19,699 | 4,343 | – | – | 24,042 |
| End of year | 29,357 | 22,971 | 8,924 | – | 61,252 |
| Short-term investments | 15,280 | – | – | – | 15,280 |
| Cash and short-term investments | $ 44,637 | $ 22,971 | $ 8,924 | $ – | $ 76,532 |

| For the year ended December 31, 2001 (thousands of dollars) | Corporate | Çayeli (Turkey) | Pyhäsalmi (Finland) | Troilus (Canada) | Total |
|---|---|---|---|---|---|
| **Cash provided by (used in) operating activities** | | | | | |
| Before net change in non-cash working capital | $ (2,958) | $ 3,604 | $ – | $ 17,394 | $ 18,040 |
| Net change in non-cash working capital | 1,872 | (4,022) | – | (9,502) | (11,652) |
| | (1,086) | (418) | – | 7,892 | 6,388 |
| **Cash provided by (used in) investing activities** | | | | | |
| Acquisitions and dispositions | (504) | – | – | – | (504) |
| Capital assets and long-term stockpile | (1,181) | (3,559) | – | (7,210) | (11,950) |
| Short-term investments | 4,925 | – | – | – | 4,925 |
| | 3,240 | (3,559) | – | (7,210) | (7,529) |
| **Cash used in financing activities** | (4,851) | (3,204) | – | – | (8,055) |
| Foreign exchange gain on cash held in foreign currency | 6 | 727 | – | – | 733 |
| Intergroup funding (distributions) | 7,765 | (7,083) | – | (682) | - |
| Increase (decrease) in cash and cash equivalents | 5,074 | (13,537) | – | – | (8,463) |
| Cash and cash equivalents: | | | | | |
| Beginning of year | 14,625 | 17,880 | – | – | 32,505 |
| End of year | 19,699 | 4,343 | – | – | 24,042 |
| Short-term investments | 39,829 | – | – | – | 39,829 |
| Cash and short-term investments | $ 59,528 | $ 4,343 | $ – | $ – | $ 63,871 |

## CONSOLIDATED STATEMENTS OF DEFICIT

| For the years ended December 31 (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| **Deficit, beginning of year** | | |
| As previously reported | **$ (109,800)** | $ (125,228) |
| Prior year's adjustment to reflect change in accounting for stock based compensation (note 15) | **(640)** | – |
| As restated | **(110,440)** | (125,228) |
| Net income | **7,376** | 18,882 |
| Accretion on equity component of convertible debentures (note 13) | **(3,756)** | (3,454) |
| **Deficit, end of year** | **$ (106,820)** | $ (109,800) |

(See accompanying notes)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The consolidated financial statements of the Corporation are expressed in thousands of Canadian dollars, except for earnings per share, and have been prepared in accordance with Canadian generally accepted accounting principles, which have been applied in a consistent manner between years, except stock based compensation, the change in which is described in Significant Accounting Policies.

### 2. ACQUISITIONS AND DISPOSITIONS

For the years ended December 31, the following acquisitions and dispositions were made. The payments in the following table reflect the amount of cash paid less cash acquired or cash received:

| (thousands of dollars) | Note | 2002 | 2001 |
|---|---|---|---|
| Pyhäsalmi | 2 (a) | **$ 64,633** | $ 1,429 |
| Çayeli | 2 (b) | **3,184** | – |
| Other | | **–** | (925) |
| | | **$ 67,817** | $ 504 |

a) In March 2002, the Corporation through a wholly-owned subsidiary acquired 100 per cent of Pyhäsalmi from a subsidiary of Outokumpu Oyj. The acquisition has been accounted for using the purchase method. The results from operations were consolidated effective April 1, 2002.

The allocation of the purchase price, based on consideration paid, is summarized as follows:

| (thousands of dollars) | |
|---|---|
| **Net assets acquired:** | |
| Cash | **$ 746** |
| Other current assets | **21,969** |
| Capital assets | **87,224** |
| Current liabilities | **(9,198)** |
| Reclamation and other liabilities | **(8,934)** |
| | **$ 91,807** |
| **Consideration:** | |
| Cash, including transaction costs | **$ 67,426** |
| Promissory note (note 6(c)) | **12,710** |
| Common shares (note 14(a)) | **11,671** |
| | **$ 91,807** |

b) During March 2002, the Corporation completed its purchase of an additional six per cent interest in Çayeli. The purchase increases the Corporation's interest in Çayeli to 55 per cent. The acquisition has been accounted for using the purchase method. With the increase of the Corporation's investment to 55 per cent, the results from operations were consolidated effective April 1, 2002. Prior to the acquisition, the Corporation's 49 per cent investment had been accounted for using the proportionate consolidation method.

The allocation of the purchase price, based on consideration paid, is summarized as follows:

| (thousands of dollars) | |
|---|---|
| **Net assets acquired:** | |
| Cash | **$ 7,876** |
| Other current assets | **13,709** |
| Capital assets | **33,126** |
| Other assets | **314** |
| Current liabilities | **(12,820)** |
| Long-term debt | **(4,240)** |
| Reclamation and other liabilities | **(1,167)** |
| Future income tax liability | **(5,840)** |
| Non controlling interest (note 9) | **(19,898)** |
| **Total consideration** | **$ 11,060** |

### 3. INVESTMENTS

At December 31, the carrying value of the Corporation's investments was as follows:

| (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| Ok Tedi | **$ 65,176** | $ 71,131 |
| Other | **1,714** | 1,714 |
| | **$ 66,890** | $ 72,845 |

As at December 31, 2002 and 2001, the Corporation held an 18 per cent ordinary share interest in Ok Tedi. On April 1, 2000, the Corporation changed its method of accounting for its investment in Ok Tedi from the equity to the cost method. A dividend of $6.0 million was received in 2002 and a dividend of $8.0 million was received in 2001. The dividends received in 2002 and 2001 were recorded as a reduction in the carrying value of the investment in Ok Tedi as the dividends exceeded the post April 1, 2000 accumulated earnings of Ok Tedi.

## 4. CAPITAL ASSETS

At December 31, capital assets consisted of the following:

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| (thousands of dollars) | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Property | **$ 77,672** | **$ 4,774** | **$ 72,898** | $ – | $ – | $ – |
| Plant and equipment | **143,597** | **38,429** | **105,168** | 52,646 | 18,087 | 34,559 |
| Capitalized stripping | **16,738** | **1,960** | **14,778** | 12,912 | 1,052 | 11,860 |
| Deferred development and exploration: | | | | | | |
| Izok | **26,305** | **–** | **26,305** | 25,364 | – | 25,364 |
| Petaquilla | **–** | **–** | **–** | 16,725 | – | 16,725 |
| | **$ 264,312** | **$ 45,163** | **$ 219,149** | $ 107,647 | $ 19,139 | $ 88,508 |

In 2002, capital assets include the acquisitions of Pyhäsalmi and Çayeli (note 2). Also in 2002, the Corporation reclassified its interest in Petaquilla from capital assets to other assets, to reflect that Petaquilla is an asset held for sale.

## 5. INCOME TAXES

A reconciliation between taxes calculated by applying the statutory tax rate to pre-tax income and income tax expense is as follows:

| (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| Income before income taxes and non controlling interest | **$ 25,088** | $ 23,396 |
| Canadian combined federal and provincial income tax rate | **39%** | 39% |
| Expected income taxes | **$ 9,784** | $ 9,124 |
| Tax effect of: | | |
| Recognition of losses of previous years | **(2,758)** | (6,767) |
| Foreign exchange not recognized for accounting purposes | **–** | 2,305 |
| Foreign taxes at different rates | **(145)** | 698 |
| Additional deductions for tax | **(893)** | (1,487) |
| Non taxable income | **(196)** | (1,453) |
| Resource allowance | **(168)** | (733) |
| Non-deductible expenses | **3,957** | 840 |
| Losses of foreign subsidiaries | **1,225** | 1,692 |
| | **10,806** | 4,219 |
| Large corporation tax and withholding tax | **753** | 295 |
| Income tax expense | **$ 11,559** | $ 4,514 |

In 2002, income tax expense includes current taxes of $4.1 million (2001 - $4.2 million) and future taxes of $7.5 million (2001 - $0.3 million). In 2002, the Corporation paid taxes of $8.7 million (2001 - $5.0 million).

At December 31, 2002, the Corporation had capital loss carry-forwards of approximately $352 million (2001 - $393 million) and approximately $16 million (2001 - $23 million) of Canadian non-capital loss carry-forwards expiring in 2006 and 2007.

As at December 31, the significant components within the Corporation's future income tax asset were as follows:

| (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| Capital losses | **$ 68,019** | $ 75,800 |
| Capital assets | **66,031** | 66,066 |
| Canadian resource deductions | **32,131** | 41,122 |
| Reclamation liabilities | **10,913** | 9,733 |
| Non-capital losses | **6,225** | 8,864 |
| Other | **2,903** | 4,489 |
| Future income tax asset before valuation allowance | **186,222** | 206,074 |
| Valuation allowance | **(177,528)** | (197,166) |
| Future income tax asset | **8,694** | 8,908 |
| Less current portion | **4,942** | 4,542 |
| | **$ 3,752** | $ 4,366 |

The Corporation's future income tax asset before valuation allowance is $186 million, most of which relates to Canadian taxes. The realization of this asset is dependent upon the generation of future taxable income and taxable capital gains. A valuation of $178 million has been provided against this asset.

As at December 31, 2002 the Corporation's future income tax liability was $12.4 million (2001 – nil), most of which relates to foreign capital assets.

### 6. LONG-TERM DEBT

At December 31, debt consisted of the following:

| (thousands of dollars) | Note | 2002 | 2001 |
|---|---|---|---|
| Revolving credit facility | 6(a) | **$ 45,435** | $ – |
| Çayeli project financing | 6(b) | **9,939** | 8,195 |
| Outokumpu promissory note | 6(c) | **15,316** | – |
| Debt component of convertible debentures | 13 | **12,020** | 13,944 |
| | | **82,710** | 22,139 |
| Less current portion: | | | |
| Revolving credit facility | | **6,310** | – |
| Çayeli project financing | | **6,626** | 3,278 |
| Debt component of convertible debentures | | **2,063** | 1,880 |
| | | **14,999** | 5,158 |
| | | **$ 67,711** | $ 16,981 |

a) In 2002, the Corporation entered into a credit agreement with a syndicate of Canadian and international banks to finance in part the acquisition of Pyhäsalmi (note 2(a)). Borrowings under the revolving credit facility are denominated in United States dollars. U.S.$30 million of the revolving credit facility was drawn down and as at December 31, 2002 the outstanding balance was U.S.$28.8 million ($45.4 million). Interest rates vary based on the prior period's debt service coverage ratio; however, for the period through December 31, 2002 the rate was the London Interbank Offered Rate plus 3.0 per cent.

The revolving credit facility is secured by a pledge of shares in certain subsidiaries, guarantees from certain wholly-owned subsidiaries and an assignment of certain receivables. The facility agreement also contains financial covenants that require compliance with ratios for debt service coverage and the level of current assets to current liabilities, as well as a minimum net worth threshold and a requirement to maintain minimum cash of U.S.$15 million.

The revolving credit facility also provides for customary covenants and events of default including a change of control of the Corporation. However, there are no restrictions on the Corporation paying dividends or making other distributions to shareholders provided there is no default then existing. The Corporation also has the right to prepay the revolving credit facility at any time. In addition, the Corporation is subject to certain mandatory prepayments in the event of asset sales, debt issuances and certain other cash inflows, including receipt of dividends from Ok Tedi.

In 2002, the Corporation made a mandatory prepayment of U.S.$1.2 million representing 50 per cent of the net Ok Tedi dividends received following draw down of the facility.

Based on the December 31, 2002 balance outstanding of $45.4 million, scheduled principal payments on the revolving credit facility are as follows:

| (thousands of dollars) | |
|---|---|
| 2003 | $ 6,310 |
| 2004 | 12,621 |
| 2005 | 12,621 |
| 2006 | 13,883 |
| | $ 45,435 |

b) At December 31, 2002, Çayeli's project financing, denominated in United States dollars, was $9.9 million (the Corporation's proportionate interest in 2001 - $8.2 million). The facility bears interest at the London Interbank Offered Rate plus 2.25 per cent per annum and has a term to 2004.

Çayeli's annual principal payments, as expressed in thousands of Canadian dollars, are as follows:

| (thousands of dollars) | |
|---|---|
| 2003 | $ 6,626 |
| 2004 | 3,313 |
| | $ 9,939 |

The loan is secured by a first ranking mortgage over substantially all of the assets of Çayeli and a pledge of the shares in Çayeli from its shareholders. The Corporation has severally guaranteed 55.0 per cent of the total amount outstanding.

c) As part of the consideration for the purchase of Pyhäsalmi, the Corporation issued a €14 million 10-year six per cent unsecured promissory note to Outokumpu Oyj. The promissory note was recorded at the fair value of €9 million ($12.7 million) at the date of issue. No principal repayments are required until maturity.

### 7. RECLAMATION LIABILITIES

The reclamation balances as at December 31 are summarized in the following table:

| (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| Present value of future water treatment costs | **$ 17,000** | $ 17,000 |
| Closure costs at closed properties | **18,437** | 20,054 |
| Closure accruals for operating mines | **11,954** | 3,343 |
| | **47,391** | 40,397 |
| Less current portion, included in accounts payable | **4,000** | 4,000 |
| | **$ 43,391** | $ 36,397 |

The Corporation reduced its provision for reclamation liabilities by $15 million in 2001 to reflect the substantial reduction in future estimated spending at its closed properties.

### 8. OTHER LIABILITIES

At December 31, other liabilities consisted of the following:

| (thousands of dollars) | 2002 | 2001 |
|---|---|---|
| Government assistance obligation | **$ 4,700** | $ 3,050 |
| Long-term compensation obligations | **2,953** | 2,953 |
| Deferred share units obligation (note 15) | **2,835** | 1,380 |
| Deferred revenue | **791** | 1,422 |
| Other | **3,068** | 1,239 |
| | **$ 14,347** | $ 10,044 |

During the construction of the Troilus project, a $4.7 million government loan was received. In 2002, the repayment terms of the loan were modified. Repayments under the original loan were to commence January 1, 2002. Under the new agreement, the loan amount is repayable based on a percentage of net profits related to production from Troilus' J-4 pit. Repayment is expected to commence in 2004. In the previous year, $1.7 million was included in accounts payable.

### 9. NON CONTROLLING INTEREST

Non controlling interest represents the 45 per cent interest in Çayeli of its non controlling shareholder. The change in the non controlling interest account for the year ended December 31 is as follows:

| (thousands of dollars) | | 2002 |
|---|---|---|
| Balance, beginning of year | $ | – |
| 45% non controlling interest on acquisition date (note 2(b)) | | 19,898 |
| Earnings at Çayeli attributable to non controlling shareholder | | 6,153 |
| Dividend paid to non controlling shareholder | | (1,494) |
| Dividend declared to non controlling shareholder | | (2,359) |
| Foreign exchange | | (87) |
| Balance, end of year | $ | 22,111 |

### 10. FOREIGN CURRENCY TRANSLATION ACCOUNT

At December 31, the foreign currency translation account consisted of the following:

| (thousands of dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Pyhäsalmi | $ | 15,126 | $ | – |
| Çayeli | | 2,002 | | 2,065 |
| | $ | 17,128 | $ | 2,065 |

The change in the foreign currency translation account for the years ended December 31 is as follows:

| (thousands of dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 2,065 | $ | 1,516 |
| Adjustment arising on translation of foreign subsidiaries into Canadian dollars: | | | | |
| United States dollar denominated | | (63) | | 549 |
| European euro denominated | | 15,126 | | – |
| Balance, end of year | $ | 17,128 | $ | 2,065 |

The Canadian dollar to United States dollar exchange rate was 1.58 at December 31, 2002 and 1.59 at December 31, 2001. The Canadian dollar to European euro exchange rate was 1.66 at December 31, 2002 and 1.40 at the date of the acquisition of Pyhäsalmi.

### 11. PENSION PLANS

The Corporation maintains both defined benefit and defined contribution pension plans. Pension payments made to retirees in the defined benefit plans are computed based on various factors, including years of service and highest average remuneration in a specified period or a stated amount for each year of service as specified in the plan agreements. Pension expense for 2002 was $1.2 million (2001 - $0.1 million).

The following significant actuarial assumptions were used to determine the accrued benefit obligation and periodic pension expense:

| | 2002 | 2001 |
|---|---|---|
| Average expected long-term rate of return on plan assets | 7.25% | 8% |
| Average discount rate on accrued benefit obligations | 6.50% | 6.75% |
| Rate of compensation increase | 4% | 4% |

The components of pension expense for 2002 and 2001 are as follows:

| (thousands of dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Current service cost – defined benefit | $ | 227 | $ | 184 |
| Current service cost – defined contribution | | 1,277 | | 1,019 |
| Interest cost on projected benefit obligations | | 2,691 | | 2,724 |
| Expected return on pension fund assets | | (3,021) | | (3,695) |
| Net amortization, deferrals and other | | 68 | | (105) |
| **Net pension expense** | $ | 1,242 | $ | 127 |

At December 31, information on the Corporation's defined benefit pension plans was as follows:

| (thousands of dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| **Plan assets** | | | | |
| Market value of plan assets, beginning of year | $ | 42,615 | $ | 47,741 |
| Actual loss on plan assets | | (1,371) | | (2,021) |
| Surplus applied to defined contribution plan | | (1,239) | | (992) |
| Benefits paid | | (2,987) | | (3,428) |
| Foreign exchange | | (112) | | 1,315 |
| Market value of plan assets, end of year | | 36,906 | | 42,615 |
| **Accrued benefit obligation** | | | | |
| Accrued benefit obligation, beginning of year | | 40,683 | | 37,378 |
| Current service cost | | 227 | | 184 |
| Interest cost | | 2,691 | | 2,724 |
| Actuarial loss | | 1,851 | | 2,492 |
| Benefits paid | | (2,987) | | (3,428) |
| Foreign exchange | | (212) | | 1,333 |
| Accrued benefit obligation, end of year | | 42,253 | | 40,683 |
| **Plan assets in excess of (less than) accrued benefit obligations** | | (5,347) | | 1,932 |
| Unamortized transitional asset | | (1,095) | | (1,336) |
| Unamortized net actuarial loss | | 11,454 | | 5,519 |
| Other | | 154 | | 19 |
| **Pension asset** | $ | 5,166 | $ | 6,134 |

The unamortized net actuarial loss increased $5.9 million during the year ended December 31, 2002 mainly due to declining market conditions with respect to interest rates and return on pension assets. In addition, plan assets are reduced for contributions made from the surplus.

As at December 31, 2002 the plan assets included market values from the Canadian plan and the United States plan in the amount of $17.8 million and $19.1 million, respectively (2001 - $21.0 million and $21.6 million, respectively). In addition, at December 31, 2002 the accrued benefit obligation under the Canadian and United States plans was $16.9 million and $25.4 million, respectively (2001 - $17.4 million and $23.3 million, respectively).

## 12. COMMITMENTS AND CONTINGENCIES

In October 2002, several falls of ground at the Çayeli mine resulted in an interruption to the normal production schedule as well as additional expenditures incurred to repair and rehabilitate the mine. Çayeli has notified the insurer of its claims under a business interruption and property damage insurance policy for losses arising from the interruption to the production and the property damage caused by the falls of ground. The Corporation has recorded a receivable from the insurance company in the amount of U.S.$4.0 million, which covers the costs incurred to December 31, 2002 less a U.S.$350,000 deductible.

On January 15, 2002 the Corporation received judgment in its British Columbia Supreme Court action against Homestake Canada, Inc. ("Homestake") in connection with the failure of Homestake to complete the purchase of Troilus. The judgment affirms the Corporation's position that Homestake wrongfully repudiated its agreement to purchase the Troilus mine in 1997 and awarded the Corporation damages in lieu of specific performance in the amount of $88.2 million. The judgment has been appealed and the appeal is scheduled to be heard in June 2003. The Corporation has sufficient capital losses to offset taxes that might otherwise be payable on receipt of any proceeds from the award (note 5).

The Corporation maintains letters of credit and surety bonds amounting to approximately $20 million as at December 31, 2002. These instruments provide financial assurance with respect to both performance and financial obligations of the Corporation relating to environmental and other matters. The liabilities to which the majority of these instruments relate have been accrued in reclamation and other liabilities (notes 7 and 8). In 2002, the Corporation obtained a U.S.$10 million secured letter of credit facility, which covers approximately $15 million of the Corporation's letters of credit. The letter of credit facility is secured with the same provisions as the revolving credit facility (note 6). The Corporation's remaining letters of credit and surety bonds are unsecured.

## 13. CONVERTIBLE DEBENTURES

The convertible debentures have been segregated into their debt and equity components as at December 31, as follows:

| (thousands of dollars) | Note | 2002 | 2001 |
|---|---|---|---|
| Debt component | 6 | **$ 12,020** | $ 13,944 |
| Equity component, net of unamortized issue costs of $0.9 million (2001 - $1.1 million) | | **$ 41,171** | $ 37,413 |

The financial liability component representing the present value of future interest payments is included in debt. The remaining component representing the value ascribed to both the holders' option to convert the principal balance into common shares and the Corporation's right to pay the principal amount of the debenture in common shares is classified in shareholders' equity. These components have been measured at their respective fair values at the date the convertible debentures were originally acquired.

The convertible subordinated debentures mature on September 30, 2007 and are direct unsecured obligations of the Corporation, are subordinated to all other indebtedness of the Corporation and have a face value of $64 million. The sum of the liability and equity components, net of issue costs, is $10.0 million (2001 - $11.6 million) less than the face value. This amount, which represents the unamortized difference between the market value and the face value of the debentures when the Corporation acquired the issuer of the debentures, is accreted as a charge to equity over the remaining term of the instrument, of which $1.6 million (2001 - $1.5 million) was charged in 2002. Interest is paid at a rate per annum equal to the greater of (i) five per cent and (ii) one per cent plus the percentage that two times the dividends paid on the common shares in the six months ended on the date six months prior to the interest payment date is of the conversion price.

The debentures are convertible into common shares of the Corporation at the holder's option any time before the earlier of September 29, 2007 and the last business day before the date specified for redemption, at a conversion price of $21.25 for each common share. The Corporation may adjust the conversion price to $23.85 provided that the Corporation also fixes the interest rate at six per cent per annum. The debentures are currently redeemable by the Corporation at par.

The Corporation may elect to pay the principal amount of the debentures outstanding at maturity in common shares of the Corporation valued at their average closing market price for the 30 trading days prior to maturity.

Interest expense on the liability component is recorded at an effective interest rate of 9.5 per cent and was $1.3 million in 2002 (2001 - $1.5 million). The equity component of the convertible debentures is being accreted to the maturity value at the same effective interest rate through periodic charges to retained earnings. The accretion on the equity component was $2.1 million in 2002 (2001 - $1.9 million). The Corporation paid interest of $3.2 million in both 2002 and 2001. In certain limited circumstances, the Corporation may elect to pay interest in the form of common shares of the Corporation.

## 14. SHARE CAPITAL

Authorized:

Unlimited number of preferred shares.

Unlimited number of subordinate voting participating shares.

Unlimited number of common shares.

Issued:

| | | 2002 | | 2001 | |
|---|---|---|---|---|---|
| (in thousands) | Note | Common Shares | Amount | Common Shares | Amount |
| Balance, beginning of year | | **35,276** | **$ 215,678** | 36,402 | $ 222,568 |
| Issued during the year: | | | | | |
| Acquisition of Pyhäslami, net of costs | 14(a) | **4,000** | **11,671** | – | – |
| Other | | **7** | **23** | – | – |
| Common shares repurchased | 14(b) | – | – | (1,126) | (6,890) |
| Balance, end of year | | **39,283** | **$ 227,372** | 35,276 | $ 215,678 |

a) In 2002, four million common shares were issued to Outokumpu Oyj as part of the consideration for the purchase of Pyhäsalmi. The value of the four million common shares issued was determined based on the average market price of the Corporation's common shares over a 10 day period before and after the terms of the acquisition were agreed to and announced on December 19, 2001 to be $2.93 per share.

b) In 2001, pursuant to a normal course issuer bid, the Corporation repurchased 1,126,800 of its common shares at an average cost of $2.00 per share. The common shares were cancelled upon repurchase. The Corporation's share capital was reduced by its net book value of $6.11 per share or $6.9 million in 2001. The difference between the purchase price and the net book value, $4.6 million was credited to contributed surplus.

c) At December 31, 2002, the Corporation has outstanding share purchase loans receivable, in the amount of $1.2 million (2001 - $1.4 million), from certain current and former officers and directors, included in other assets.

d) The calculation of basic and diluted net income per share is detailed in the following tables:

| For the year ending December 31, 2002 (thousands, except share amounts) | Income | Number of Shares [1] | Per Share Amount |
|---|---|---|---|
| Basic net income per share: | | | |
| Net income | **$ 7,376** | | |
| Accretion on equity component of convertible debentures | **(3,756)** | | |
| Income available to common shareholders | **3,620** | **38,447** | **$ 0.09** |
| Diluted net income per share: | | | |
| Effect of dilutive stock options | – | **1,123** | – |
| | **$ 3,620** | **39,570** | **$ 0.09** |

| For the year ending December 31, 2001 (thousands, except share amounts) | Income | Number of Shares [1] | Per Share Amount |
|---|---|---|---|
| Basic net income per share: | | | |
| Net income | $ 18,882 | | |
| Accretion on equity component of convertible debentures | (3,454) | | |
| Income available to common shareholders | 15,428 | 35,326 | $ 0.44 |
| Diluted net income per share: | | | |
| Effect of dilutive stock options | – | 181 | – |
| | $ 15,428 | 35,507 | $ 0.44 |

[1] weighted average

Options to purchase 790,000 common shares (2001 – 2,384,000 common shares) were excluded from the computation of diluted net income per share because the exercise price of the options was greater than the average market price of the common shares of $5.13 per share in 2002 (2001 - $2.34 per share). In addition, the conversion of the convertible debentures was excluded from the calculation of diluted net income per share in 2002 and 2001 as the effect would be anti-dilutive.

## 15. STOCK BASED COMPENSATION

For the years ended December 31, stock based compensation expense includes the following:

| (thousands of dollars) | Note | | 2002 | | 2001 |
|---|---|---|---|---|---|
| Stock options | 15(a) | **$** | **3,426** | $ | – |
| Deferred share units | 15(b) | | **1,226** | | 538 |
| | | **$** | **4,652** | $ | 538 |

a) Effective January 1, 2002, the Corporation adopted, retroactively without restatement of prior years, the new accounting standard of the Canadian Institute of Chartered Accountants in respect of stock based compensation.

Under its stock option plans, the Corporation may grant non-assignable options to purchase common shares to directors, officers and certain key executives of the Corporation and its affiliates. Any such option will have an exercise price not less than the closing price on the trading day immediately preceding the date of grant. Under the treasury stock option plan, the options vest over a four year period from the date of the grant, are exercisable over a period of not more than 10 years, and shares in respect of which options are exercised are issued from treasury. Under the supplementary stock option plan, the options vest over a four year period from the date of the grant, are exercisable over a period of not more than six years, and shares in respect of which options are exercised are acquired in the market by a trustee on behalf of the Corporation.

Both stock option plans provide that stock appreciation rights ("SARs") may be granted in connection with options. SARs may be exercised in lieu of an option and give the holder of an option the right to receive cash or common shares of the Corporation equal in value to the difference between the exercise price of an option and the market price of the common shares subject to an option on the date on which the SARs are exercised.

At the end of 2002, the Corporation's option holders waived the SAR feature on all outstanding stock options. Compensation expense for 2002 of $3.4 million reflects the difference between the option price and the market value of vested options on the date the SARs were waived. A $0.6 million expense has been recorded in the opening retained earnings as of January 1, 2002. Jointly with the signing of the waivers, the liability in relation to the SARs in the amount of $3.8 million, representing the cumulative expense less options exercised, was reclassified to shareholders' equity. The remaining expense for unvested options of $0.3 million will be amortized over the remaining vesting period of three years.

Changes to stock options outstanding for the years ended December 31 are as follows:

**Treasury plan**

| **2002** | **Options** | | **Weighted Average Price** |
|---|---|---|---|
| Balance, beginning of year | **2,316,000** | **$** | **3.59** |
| Options exercised | **(39,500)** | **$** | **2.38** |
| Options granted | **–** | **$** | **–** |
| Options terminated | **(5,500)** | **$** | **2.32** |
| Balance, end of year | **2,271,000** | **$** | **3.62** |
| Available for grant at December 31 | **1,489,500** | | |

**Treasury plan**

| 2001 | Options | | Weighted Average Price |
|---|---|---|---|
| Balance, beginning of year | 2,379,000 | $ | 3.64 |
| Options exercised | – | $ | – |
| Options granted | 382,000 | $ | 2.91 |
| Options terminated | (445,000) | $ | 3.28 |
| Balance, end of year | 2,316,000 | $ | 3.59 |
| Available for grant at December 31 | 1,484,000 | | |

**Supplementary plan**

| **2002** | **Options** | | **Weighted Average Price** |
|---|---|---|---|
| Balance, beginning of year | **808,000** | **$** | **2.32** |
| Options exercised | **(28,000)** | **$** | **1.75** |
| Options granted | **10,000** | **$** | **5.80** |
| Options terminated | **(4,500)** | **$** | **1.75** |
| Balance, end of year | **785,500** | **$** | **2.39** |

**Supplementary plan**

| 2001 | Options | | Weighted Average Price |
|---|---|---|---|
| Balance, beginning of year | 546,000 | $ | 1.75 |
| Options exercised | – | $ | – |
| Options granted | 387,000 | $ | 2.95 |
| Options terminated | (125,000) | $ | 1.75 |
| Balance, end of year | 808,000 | $ | 2.32 |

At December 31, 2002, the following stock options were outstanding and exercisable:

**Treasury plan**

| Outstanding | Exercisable | | Exercise Price | Remaining Years Outstanding |
|---|---|---|---|---|
| 780,000 | 780,000 | $ | 5.35 | 5.1 |
| 190,000 | 190,000 | $ | 3.25 | 5.8 |
| 241,500 | 180,250 | $ | 3.00 | 6.3 |
| 5,000 | 2,500 | $ | 2.60 | 6.9 |
| 398,000 | 195,500 | $ | 2.75 | 7.1 |
| 274,500 | 129,500 | $ | 1.75 | 7.9 |
| 25,000 | 6,250 | $ | 2.30 | 8.5 |
| 357,000 | 89,250 | $ | 2.95 | 9.0 |
| 2,271,000 | 1,573,250 | $ | 3.62 | |

**Supplementary plan**

| Outstanding | Exercisable | | Exercise Price | Remaining Years Outstanding |
|---|---|---|---|---|
| 388,500 | 181,000 | $ | 1.75 | 3.9 |
| 387,000 | 96,750 | $ | 2.95 | 5.0 |
| 10,000 | – | $ | 5.80 | 6.0 |
| 785,500 | 277,750 | $ | 2.39 | |

b) The Corporation has a deferred share unit plan under which the Corporation's directors may elect to receive director fees in the form of deferred share units ("DSUs"), in lieu of cash. On retirement, directors may elect to redeem their DSUs for cash or common shares of the Corporation to be purchased on the open market. At December 31, 2002, the Corporation's 472,467 outstanding DSUs were valued at the Corporation's December 31, 2002 share price of $6.00 per share, resulting in an obligation of $2.8 million. In 2001, the Corporation's 432,143 outstanding DSUs were valued at the Corporation's December 31, 2001 share price of $3.15 per share, resulting in an obligation of $1.4 million. The obligation relating to the DSUs is recorded in other liabilities.

## 16. INVESTMENT AND OTHER INCOME

For the years ended December 31, investment and other income is summarized as follows:

| (thousands of dollars) | | 2002 | | 2001 |
|---|---|---|---|---|
| Interest, dividend and other income | $ | 3,989 | $ | 3,278 |
| Foreign exchange gain | | 319 | | 877 |
| Pension expense (note 11) | | (1,242) | | (127) |
| Sales tax payment from Antamina | | – | | 4,377 |
| Litigation costs | | (354) | | (3,089) |
| | $ | 2,712 | $ | 5,316 |

Litigation costs incurred relate to the case against Homestake in connection with the failure of Homestake to complete the purchase of Troilus (note 12).

## 17. INTEREST EXPENSE

For the years ended December 31, interest expense by obligation is summarized as follows:

| (thousands of dollars) | Note | | 2002 | | 2001 |
|---|---|---|---|---|---|
| Revolving credit facility | 6(a) | $ | 1,958 | $ | – |
| Convertible debentures | 13 | | 1,280 | | 1,451 |
| Outokumpu promissory note: | 6(c) | | | | |
| Interest paid at 6% face value | | | 1,004 | | – |
| Amortization to fair value | | | 281 | | – |
| Çayeli project financing | 6(b) | | 444 | | 683 |
| Payable to Çayeli non controlling shareholder | | | 1,635 | | – |
| Interest cost on discounted future water treatment cost obligation | 7 | | 773 | | 925 |
| Other | | | 885 | | – |
| | | $ | 8,260 | $ | 3,059 |

In 2002, the Corporation paid interest of $6.9 million (2001 - $4.9 million).

## 18. FINANCIAL INSTRUMENTS

### Fair Value of Financial Assets and Financial Liabilities

The carrying value of cash and short-term investments, accounts receivable, accounts payable, accrued liabilities and current portion of long-term debt approximates fair value due to the short term maturities of these instruments. The carrying value of long-term debt (other than the debt component of convertible debentures and the promissory note) approximates fair value as it is subject to floating interest rates.

The Corporation holds cash and marketable short-term investments, which are subject to various risks such as interest rate, credit and liquidity. These risks are mitigated by restricting both the type and term of securities eligible for investment and dealing with highly rated counterparties.

The following table presents the financial instruments with a carrying value different from their fair value at December 31:

| (thousands of dollars) | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Publicly traded investments | **$ 108** | **$ 685** | $ 108 | $ 407 |
| 3.3 per cent net proceeds interest in Antamina | **–** | **31,552** | – | – |
| Long-term debt: | | | | |
| Promissory note | **15,316** | **18,201** | – | – |
| Convertible debentures | **9,957** | **9,404** | 12,064 | 9,990 |

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. The fair value of the net proceeds interest is based on the U.S.$20 million put price. The fair value of publicly traded investments is based on quoted market prices. The fair value of the debt portion of convertible debentures is estimated based on discounted cash flows of future interest payments using the December 31, 2002 market yield of the debentures. The fair value of the promissory note is estimated based on discounted cash flows of future interest payments and principal repayment using the December 31, 2002 market yield of the debentures.

### Concentration of Credit Risk

The Corporation's operations enter into their own sales agreements. At Pyhäsalmi, all copper and zinc concentrate sales were sold to one customer and at Troilus approximately 60 per cent of its 2002 net sales were sold to one customer (2001 – 75 per cent). Credit risk exposure is mitigated because the metal concentrate that the Corporation's operations produce can be sold to a significant number of smelters.

### Derivative Financial Instruments

The Corporation manages its exposure to changes in commodity prices and exchange rates by entering into derivative financial instrument contracts. The Corporation uses forward sales contracts to hedge against changes in commodity prices for a portion of its forecasted gold production. The Corporation uses written call and put options to hedge against foreign currency risks.

At December 31, 2002 in relation to production from Troilus, the Corporation has the following hedging commitments:

| | Hedge Volume | Average Price |
|---|---|---|
| **Gold** | | |
| 2003 forward sales | 87,000 ounces | U.S.$325 per ounce |
| 2004-05 forward sales | 109,000 ounces | U.S.$320 per ounce |
| **U.S.$** | | |
| 2003 bought put options | U.S.$18 million | $1.5033 |
| 2003 sold call options | U.S.$18 million | $1.5933 |
| 2004-05 bought put options | U.S.$28.5 million | $1.5033 |
| 2004-05 sold call options | U.S.$28.5 million | $1.5933 |

At December 31, 2002 the unrealized loss on the Corporation's gold hedges was $9 million, based on a U.S.$347 spot price, and the unrealized loss on the currency hedges was $2 million.

# CORPORATE INFORMATION

## CORPORATE OFFICE

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330 Bay Street
Suite 1000
Toronto, Ontario, Canada
M5H 2S8
Telephone: + 1-416-361-6400

## INVESTOR RELATIONS

Financial information such as annual reports, interim reports and other information is available on Inmet's web site: www.inmetmining.com.

Copies of the annual reports, interim reports and other corporate publications are also available from our Investor Relations department:

- By mail directed to our Corporate Office
- By email at investor@inmetmining.com
- By fax at + 1-416-368-4692
- By telephone at + 1-416-860-3968

## VERSION FRANÇAISE

Pour obtenir la version française de ce rapport, veuillez communiqer avec le bureau administratif de la compagnie, département des services aux actionnaires.

## AUDITORS

KPMG LLP
Chartered Accountants
Toronto, Ontario, Canada

## SHAREHOLDER INQUIRIES

Inquiries with respect to changes of address, registration and lost share certificates should be directed to the Stock Transfer Department of CIBC Mellon Trust Company in Toronto, Montreal, Winnipeg, Calgary or Vancouver. Alternatively, our Transfer Agent may be reached at:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada
M5C 2W9

Answer Line™: + 1-416-643-5500
or toll free in North America at 1-800-387-0825
Fax: + 1-416-643-5501
Email: inquiries@cibcmellon.ca
Web site: www.cibcmellon.ca

## STOCK SYMBOL

IMN

## STOCK EXCHANGE LISTING

Toronto Stock Exchange

**Common Shares**

| (thousands) | **2002** | 2001 |
|---|---|---|
| Average for the year ended December 31 | **38,447** | 35,326 |
| As at December 31 | **39,283** | 35,276 |

WWW.INMETMINING.COM